APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DATED OCTOBER 3, 2002

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

01-1567

JOHN M.J. MADEY,

Plaintiff-Appellant,

v.

DUKE UNIVERSITY,

Defendant-Appellee.

DECIDED: October 3, 2002

Before BRYSON, GAJARSA, and LINN, *Circuit Judges.*

GAJARSA, *Circuit Judge.*

Dr. John M.J. Madey ("Madey") appeals from a judgment of the United States District Court for the Middle District of North Carolina. Madey sued Duke University ("Duke"), bringing claims of patent infringement and various other federal and state law claims. Pursuant to a motion filed by Duke under Federal Rule of Civil Procedure ("FRCP") 12(b)(1), the district court dismissed-in-part certain patent infringement claims and dismissed certain other claims. *Madey v. Duke Univ.*, No. 1:97CV1170, slip op. at 12-14,

38-40 (M.D.N.C. Dec. 1, 1999) ("*Dismissal Opinion*"). After discovery, the district court granted summary judgment in favor of Duke on the remaining claims. For a first set of alleged infringing acts, it held that the experimental use defense applied to Duke's use of Madey's patented laser technology. For a second set of alleged infringing acts, it held that Duke was not the infringing party because a third-party owned and controlled the allegedly infringing laser equipment. *Madey v. Duke Univ.*, No. 1:97CV1170, slip op. at 12-15, 18, 20 (M.D.N.C. June 15, 2001) ("*Summary Judgment Opinion*"). The district court erred in its partial dismissal, erred in applying the experimental use defense, but, for the second set of alleged infringing acts, correctly determined that Duke did not infringe because it did not own or control the equipment. Accordingly, we reverse-in-part, affirm-in-part, and remand.

I. BACKGROUND

In the mid-1980s Madey was a tenured research professor at Stanford University. At Stanford, he had an innovative laser research program, which was highly regarded in the scientific community. An opportunity arose for Madey to consider leaving Stanford and take a tenured position at Duke. Duke recruited Madey, and in 1988 he left Stanford for a position in Duke's physics department. In 1989 Madey moved his free electron laser ("FEL") research lab from Stanford to Duke. The FEL lab contained substantial equipment, requiring Duke to build an addition to its physics building to house the lab. In addition, during his time at Stanford, Madey had obtained sole ownership of two patents practiced by some of the equipment in the FEL lab.

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At Duke, Madey served for almost a decade as director of the FEL lab. During that time the lab continued to achieve success in both research funding and scientific breakthroughs. However, a dispute arose between Madey and Duke. Duke contends that, despite his scientific prowess, Madey ineffectively managed the lab. Madey contends that Duke sought to use the lab's equipment for research areas outside the allocated scope of certain government funding, and that when he objected, Duke sought to remove him as lab director. Duke eventually did remove Madey as director of the lab in 1997. The removal is not at issue in this appeal, however, it is the genesis of this unique patent infringement case. As a result of the removal, Madey resigned from Duke in 1998. Duke, however, continued to operate some of the equipment in the lab. Madey then sued Duke for patent infringement of his two patents, and brought a variety of other claims.

A. The Patents and Infringing Equipment

One of Madey's patents, U.S. Patent No. 4,641,103 ("the '103 patent"), covers a "Microwave Electron Gun" used in connection with free electron lasers. The other patent, U.S. Patent No. 5,130,994 ("the '994 patent"), is titled "Free-Electron Laser Oscillator For Simultaneous Narrow Spectral Resolution And Fast Time Resolution Spectroscopy." The details of these two patents are not material to the issues on appeal. Their use in the lab, however, as embodied in certain equipment, is central to this appeal.

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The equipment at the Duke FEL lab that practices the subject matter disclosed and claimed in the patents is set forth in the list below, which first lists the equipment and then the patent(s) it embodies.

- An infrared FEL called the "Mark III FEL," embodying the '994 patent and the '103 patent (by incorporating the microwave electron gun in the infrared FEL).

- A "Storage Ring FEL," embodying the same patents as the Mark III FEL because it incorporates a Mark III FEL.

- A "Microwave Gun Test Stand," embodying the '103 patent (by incorporating the microwave electron gun).

The three alleged infringing devices are the Mark III FEL, the Storage Ring FEL, and the Microwave Gun Test Stand. Although it is not clear from the record, perhaps because Duke defended by asserting experimental use and government license defenses, Duke seems to concede that the alleged infringing devices and methods read on the claims of the patents. Although the three devices were housed in Duke's physics facilities, the Microwave Gun Test Stand was not Duke's asset, but rather belonged to North Carolina Central University ("NCCU").

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B. Duke's Relationship with NCCU

Madey and Duke built the Microwave Gun Test Stand as a subcontractor to NCCU after the government awarded NCCU a contract to study microwave guns (the "AFOSR Contract"). Professor Jones of NCCU was the principal investigator under this government project. The Microwave Gun Test Stand was built and housed in the Duke FEL lab. The AFOSR Contract listed the Microwave Gun Test Stand as NCCU's asset.

C. The District Court's Dismissal Opinion

Duke moved to dismiss the infringement claims under the '103 patent under both FRCP 12(b)(1) for lack of subject matter jurisdiction, and under FRCP 12(b)(6) for failure to state a claim upon which relief can be granted. *Dismissal Opinion* at 9 n.2. The district court granted the first motion in part, but denied the second motion. Madey alleges on appeal that the district court erred in its FRCP 12(b)(1) partial dismissal.

Motion to Dismiss under FRCP 12(b)(1)

The district court reasoned that Duke's alleged unauthorized use of the '103 patent fell into two categories: (i) use in furtherance of an Office of Naval Research ("ONR") grant; and (ii) use that exceeds the authorized scope of the ONR grant. The district court determined that if all the unauthorized use fell in the first category, jurisdiction would lie in the Court of Federal Claims. On the other hand, if all of the unauthorized use fell in the second category,

jurisdiction would lie in federal district court. In all probability, however, the use spanned both categories.

To make the determination as to whether dismissal under FRCP 12(b)(1) was proper, the district court relied on 28 U.S.C. § 1498(a), set forth below.

> (a) Whenever an invention described in and covered by a patent of the United States is *used or manufactured by or for the United States* without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture. . . .
>
> For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation *for the Government and with the authorization or consent of the Government*, shall be construed as use or manufacture for the United States. . . .

28 U.S.C. § 1498(a) (2000) (emphasis added).

The district court reasoned that under § 1498(a) Madey must sue in the Court of Federal Claims for any use in furtherance of the ONR grant. *Dismissal Opinion* at 10-11. This reasoning assumes that the ONR grant provides the

"authorization or consent" of the government to be sued, and designates Duke's use as "by or for" the United States. The district court did not, however, discuss or analyze the particular statements or aspects of the ONR grant that provided the government's authorization or consent to be sued. Nor did the court discuss or characterize Duke's use or manufacture as "by or for the United States."

The district court acknowledged that the use at issue was potentially mixed between the two categories, within the scope of the ONR grant, and without. The district court applied Fourth Circuit law, under which the burden of proving subject matter jurisdiction is with the plaintiff. *Id.* at 11 (quoting *Richmond, Fredericksburg & Potomac R.R. Co. v. United States*, 945 F.2d 765, 768 (4th Cir. 1991)). Thus, even at the pleading stage, according to the district court, the nonmoving party must set forth evidence of specific "jurisdictional" facts to show that a genuine issue of material fact exists; the moving party prevails only if the material jurisdictional facts are not in dispute. *Id.* (citing *Trentacosta v. Frontier Pac. Aircraft Indus.*, 813 F.2d 1553, 1558 (9th Cir. 1987)).

The district court rejected Duke's contention that even if only some use is for the government, the claim should be dismissed. The court noted that the extent of Duke's "use of the '103 patent for private purposes is unclear." *Id.* at 13. The court acknowledged that discovery would be necessary to determine the nature and extent of Duke's private use. However, for Duke's use of the patents "under the authority

of the government research grant," the district court dismissed Madey's claim without prejudice.[1]

D. The District Court's Summary Judgment Opinion

Among Duke's motions for summary judgment, two are relevant on appeal, entitled by the district court as: (i) the "Patent Motion;" and (ii) the "Test Stand Gun Motion."

The Patent Motion and the Experimental Use Defense

The district court acknowledged a common law "exception" for patent infringement liability for uses that, in the district court's words, are "solely for research, academic or experimental purposes." *Summary Judgment Opinion* at

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1. The district court also ruled on various other motions to dismiss. First, it granted a motion by a number of individual defendants named with Duke to dismiss Madey's claims against them pursuant to FRCP 8, 9(b) and 12(b)(6). *Dismissal Opinion* at 6. Specifically, without reaching the merits of Rule 9(b) or Rule 12(b)(6), the district court dismissed Madey's claims against the individual defendants under Rule 8 because the claims did not provide sufficient notice to the individual defendants. *Id.* at 7-8. Madey has not appealed this dismissal.

Second, the district court denied Duke's motions to dismiss Madey's claims for conversion of property, *id.* at 16, misappropriation of business opportunities, *id.* at 21, constructive fraud, *id.* at 33, and breach of contract, *id.* at 38. However, the court granted Duke's motions to dismiss Madey's age discrimination claims, *id.* at 27, and civil rights claims, *id.* at 30. Madey has not appealed the district court's grant of these last two motions.

9 (citing *Deuterium Corp. v. United States*, 19 Cl. Ct. 624, 631, 14 USPQ2d 1636, 1642 (1990); *Whittemore v. Cutter*, 29 F. Cas. 1120 (C.C.D. Mass. 1813) (No. 17,600); and citing two commentators[2]). The district court recognized the debate over the scope of the experimental use defense, but cited this court's opinion in *Embrex, Inc. v. Service Engineering Corp.*, 216 F.3d 1343, 1349, 55 USPQ2d 1161, 1163 (Fed. Cir. 2000) to hold that the defense was viable for experimental, non-profit purposes. *Summary Judgment Opinion* at 9 (citing *Embrex*, 216 F.3d at 1349, 55 USPQ2d at 1163 (noting that courts should not "construe the experimental use rule so broadly as to allow a violation of the patent laws in the guise of 'scientific inquiry,' when that inquiry has definite, cognizable, and not insubstantial commercial purposes" (quoting *Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 863, 221 USPQ 937, 940 (Fed. Cir. 1984))[3])).

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2. Janice M. Mueller, *No "Dilettante Affair": Rethinking the Experimental Use Exception to Patent Infringement for Biomedical Research Tools*, 76 Wash. L. Rev. 1, 17 (2001); 5 *Chisum on Patents* § 16.03[1] (2000).

3. The accused infringer in *Roche* sought to assert the experimental use defense to allow early development of a generic drug. After the *Roche* decision, however, Congress changed the law, overruling *Roche* in part, but without impacting the experimental use doctrine. Congress provided limited ability for a company to practice a patent in furtherance of a drug approval application. *See Deuterium*, 19 Cl. Ct. at 632 n.14, 14 USPQ2d at 1642 n.14.

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After having recognized the experimental use defense, the district court then fashioned the defense for application to Madey in the passage set forth below.

> Given this standard [for experimental use], for [Madey] to overcome his burden of establishing actionable infringement in this case, he must establish that [Duke] has not used the equipment at issue "solely for an experimental or other non-profit purpose." 5 Donald S. Chisum, *Chisum on Patents* § 16.03[1] (2000). More specifically, [Madey] must sufficiently establish that [Duke's] use of the patent had "definite, cognizable, and not insubstantial commercial purposes." *Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 863 (Fed. Cir. 1984), *cert. denied*, 469 U.S. 856, 863 (1984).

Summary Judgment Opinion at 10.

On appeal, Madey attacks this passage as improperly shifting the burden to the plaintiff to allege and prove that the defendant's use was not experimental.

Before the district court, Madey argued that Duke's research in its FEL lab was commercial in character and intent. *Id.* Madey relied on *Pitcairn v. United States*, 547 F.2d 1106, 192 USPQ 612 (Ct. Cl. 1976), where the government used patented rotor structures and control systems for a helicopter to test the "lifting ability" and other attributes of the patented technology. *Pitcairn*, 547 F.2d at 1125-26, 192 USPQ at 625. The *Pitcairn* court held that the helicopters were not built solely for experimental purposes because they were also built to benefit the government in its legitimate business. *Id.* Based on language in Duke's patent

policy, Madey argues that Duke is in the business of "obtaining grants and developing possible commercial applications for the fruits of its 'academic research.' " *Summary Judgment Opinion* at 11.

The district court rejected Madey's argument, relying on another statement in the preamble of the Duke patent policy which stated that Duke was "dedicated to teaching, research, and the expansion of knowledge . . . [and] does not undertake research or development work principally for the purpose of developing patents and commercial applications." *Id.* The district court reasoned that these statements from the patent policy refute any contention that Duke is "in the business" of developing technology for commercial applications. *Id.* at 12. According to the district court, Madey's "evidence" was mere speculation,[4] and thus Madey did not meet his burden of proof to create a genuine issue of material fact.[5]

4. Madey also argued that Duke's acceptance of funding from the government and private foundations was evidence of developing patented devices with commercial intent. The district court also rejected this proposition. *Summary Judgment Opinion* at 13 (citing *Ruth v. Stearns-Roger Mfg. Co.*, 13 F. Supp. 697, 713 (D. Colo. 1935) (concluding that the experimental use defense applies when a university uses a patented device in furtherance of its educational purpose); Ronald D. Hartman, *Experimental Use as an Exception to Patent Infringement*, 67 J. Pat. Off. Soc'y 617, 633 (1985) (concluding that *Ruth* supports application of the experimental use defense to a university's operations in furtherance of its educational function)).

5. The district court discussed and dismissed in a footnote other evidence suggested by Madey, including the fact that Duke had established (but not yet applied) an hourly fee for industrial users wishing to use the FEL lab's resources, and statements from Duke's website for the FEL lab indicating an interest in corporate partnerships. *Id.* at 15 n.2.

Id. The court went on to state that "[w]ithout more concrete evidence to rebut [Duke's] stated purpose with respect to its research in the FEL lab, Plaintiff has failed to meet its burden of establishing patent infringement by a preponderance of the evidence." *Id.* at 13.

Finally, under its discussion of the Patent Motion, the district court reasoned that Duke's argument that "essentially all" uses of the patents were covered by a license to the government was moot given the experimental use holding. Despite its mootness determination, the district court went on to partially analyze the government license issue as set forth in the passage below.[6] *Id.* at 16.

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6. In a footnote, the district court cites to a section from the Bayh-Dole Act to support its reasoning that the government has a license to have patents practiced on its behalf when the government contributed to the funding of such patents. *Id.* at 16 n.3 (citing 35 U.S.C. § 202(c)(4) (2000)). The relevant section is set forth below.

> (c) Each funding agreement with a small business firm or nonprofit organization shall contain appropriate provisions to effectuate the following:
>
> . . .
>
> (4) With respect to any invention in which the contractor elects rights, the Federal agency shall have a nonexclusive, nontransferrable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States any subject invention throughout the world. . . .

35 U.S.C. § 202(c)(4) (2000).

(Cont'd)

> The Court does note, however, as it did previously when ruling upon [Duke's] Motion to Dismiss, that all uses that have been made of the patented devices that are covered by such a license are not subject to infringement liability.

Id.

The Test Stand Gun Motion

Under the Test Stand Gun Motion, Duke argued that any use of the patented equipment before June 1997 is not infringement because Madey consented to the manufacture and use of the Microwave Gun Test Stand by Duke and NCCU before this date. The district court agreed, concluding that

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(Cont'd)

The district court stated that the "funding agreements for the inventions created under the '994 and '103 patents expressly provide that the Government retained rights in those inventions." *Id.* Thus, the district court reasoned, in light of the Bayh-Dole Act, Duke's use of the patents that has been authorized by the government does not constitute patent infringement. Finally, the district court noted that:

> [a]lthough the parties have presented conflicting evidence as to the extent to which the patented devices have been used for a purpose consented to by the Government, because [Madey] has failed to create a genuine issue of material fact as to whether [Duke] has commercially benefited or intends to do so with respect to the patents at issue, the uses that have been made to date with respect to both patents are, at this point, exempt from infringement liability.

Id.

there was no infringement before such date because Madey approved of such use via his direct involvement. *Summary Judgment Opinion* at 17. Madey does not appeal this issue.

After June 1997, however, Duke's defense is that no one affiliated with Duke used the Microwave Gun Test Stand. Duke relied on attestations by Dr. Jones, the NCCU professor who was the principal investigator for the AFOSR contract. The district court determined that Dr. Jones was not an agent of Duke. *Id.* at 19-20. It also determined that Dr. Jones controlled physical access to the Microwave Gun Test Stand because he had the key switch to operate the device. *Id.* at 18. The district court held any contrary assertions by Madey to be "bald allegations and mere speculation." *Id.* at 19.

Given Dr. Jones' attestation that he was unaware of any Duke faculty members or employees using the Microwave Gun Test Stand after June 1997, the district court determined that there was no genuine issue of material fact and awarded summary judgment of no infringement to Duke on this issue. *Id.* at 20.

Supplemental Jurisdiction of Madey's State Law Claims

At the conclusion of its *Summary Judgment Opinion*, the district court noted that four state law claims remained in the case: conversion of property, misappropriation of business opportunities, constructive fraud, and breach of contract. *Id.* at 20 n.6. Given its determination on the two patent infringement motions, the district court declined to exercise supplemental jurisdiction over the outstanding state law claims and dismissed them without prejudice. *Id.* at 21.

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II. DISCUSSION

A. Standard of Review

We review a district court's grant of summary judgment without deference. *Atmel Corp. v. Info. Storage Devices, Inc.*, 198 F.3d 1374, 1378, 53 USPQ2d 1225, 1227 (Fed. Cir. 1999). Summary judgment is appropriate when the moving party demonstrates that "there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." FRCP 56(c); *Celotex Corp. v. Catrett*, 477 U.S. 317, 322-23 (1986). On summary judgment, the evidence must be viewed in the light most favorable to the party opposing the motion, *Poller v. Columbia Broad. Sys., Inc.*, 368 U.S. 464, 473 (1962), with doubts resolved in favor of the nonmovant, *Cantor v. Detroit Edison Co.*, 428 U.S. 579 (1976); *Transmatic, Inc. v. Gulton Indus., Inc.*, 53 F.3d 1270, 1274, 35 USPQ2d 1035, 1038 (Fed. Cir. 1995). Once the moving party has satisfied its initial burden, the opposing party must establish a genuine issue of material fact and cannot rest on mere allegations, but must present actual evidence. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). Issues of fact are genuine only "if the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Id.* A disputed fact is material to the outcome of the suit if a finding of that fact is necessary and relevant to the proceeding. *Id.*; *General Mills, Inc. v. Hunt-Wesson, Inc.*, 103 F.3d 978, 980, 41 USPQ2d 1440, 1442 (Fed. Cir. 1997).

We review questions of patent law *de novo*. *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1456, 46 USPQ2d 1169,

1172 (Fed. Cir. 1998) (en banc). The determination of infringement, whether literal or under the doctrine of equivalents, is a question of fact. *Bai v. L & L Wings, Inc.*, 160 F.3d 1350, 1353, 48 USPQ2d 1674, 1676 (Fed. Cir. 1998). On procedural issues, this Court follows the rule of the regional circuit, unless the issue is unique to patent law and therefore exclusively assigned to the Federal Circuit. *See Nat'l Presto v. W. Bend Co.*, 76 F.3d 1185, 1188 n.2, 37 USPQ2d 1685, 1686 n.2 (Fed. Cir. 1996). Accordingly:

> [w]e apply regional circuit law to procedural issues that are not themselves substantive patent law issues so long as they do not (1) pertain to patent law, *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1365, 57 USPQ2d 1635, 1637 (Fed. Cir. 2001) ("We will apply our own law to both substantive and procedural issues 'intimately involved in the substance of enforcement of the patent right' " (citation omitted)), (2) bear an essential relationship to matters committed to our exclusive control by statute, or (3) clearly implicate the jurisprudential responsibilities of this court in a field within its exclusive jurisdiction. *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359, 50 USPQ2d 1672, 1675 (Fed. Cir. 1999) (en banc in relevant part).

Int'l Nutrition Co. v. Horphag Research Ltd., 257 F.3d 1324, 1328, 59 USPQ2d 1532, 1535 (Fed. Cir. 2001).

Review of the district court's interpretation of the experimental use defense and its proper scope are questions of law and statutory interpretation that are reviewed *de novo*. *Vectra Fitness, Inc. v. TNWK Corp.*, 162 F.3d 1379, 1381, 49 USPQ2d 1144, 1146 (Fed. Cir. 1998). A dismissal for lack of subject matter jurisdiction is a procedural question not unique to patent law, therefore we follow the law of the regional circuit. *Molins PLC v. Quigg*, 837 F.2d 1064, 1066, 5 USPQ2d 1526, 1527 (Fed. Cir. 1988) (explaining that justiciability in the district court does not pertain to patent law and thus follows regional circuit law). The United States Court of Appeals for the Fourth Circuit reviews *de novo* a dismissal under FRCP 12(b)(1). *Evans v. B.F. Perkins Co.*, 166 F.3d 642, 647 (4th Cir. 1999).

B. The District Court's Dismissal Opinion

On appeal, Madey argues that the district court improperly applied 28 U.S.C § 1498(a) by failing to make sufficient supporting determinations. As a result, according to Madey, partial dismissal of the '103 patent infringement claim for Duke's use under the ONR grant was improper. Specifically, Madey argues that the court did not find that Duke's use was "by or for the United States," and that the use was with the "authorization or consent" of the United States. Madey makes the distinction that a research grant is different from a contract to acquire property or services for the government. Duke, on the other hand, attacks Madey's distinction as meaningless, arguing that either a grant or a contract can meet the prerequisites of § 1498(a).

Based on the district court's findings, we agree with Madey that the district court erred in granting the partial dismissal. Madey, however, also asserts that a research grant can never meet the requirements of § 1498(a). We disagree with this proposition.

The district court did not clearly identify, discuss or analyze the particular statements or aspects of the ONR grant that may have provided the government's authorization or consent to be sued. The court seems to have assumed that a research grant by a federal agency to a university for financial support of scientific research proposed by the university constitutes activity "for the United States" and provides authorization or consent by the United States for patent infringement liability for any patents used in the course of the research. In addition, the court did not discuss or characterize Duke's use or manufacture of the '103 patent embodiments as "by or for the United States."

In general, there are two important features of § 1498(a). It relieves a third party from patent infringement liability, and it acts as a waiver of sovereign immunity and consent to liability by the United States. *See Crater Corp. v. Lucent Tech., Inc.*, 255 F.3d 1361, 1364, 59 USPQ2d 1044, 1045 (Fed. Cir. 2001) ("If a patented invention is used or manufactured for the government by a private party, that private party cannot be held liable for patent infringement."); *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 554-55 & n.6, 16 USPQ2d 1587, 1595-96 & n.6 (Fed. Cir. 1990) (discussing § 1498(a) in two contexts, when raised by a private party as a defense, in which case it is not jurisdictional, and when invoked in a suit against the United

States, in which case it is jurisdictional) (citing for support and discussing *Sperry Gyroscope Co. v. Arma Eng'g Co.*, 271 U.S. 232, 235-36 (1926)). Waivers of sovereign immunity are to be strictly construed. *See, e.g., Irwin v. Dep't of Veterans Affairs*, 498 U.S. 89, 94 (1990); *Library of Congress v. Shaw*, 478 U.S. 310, 318 (1986). This general mantra influences the application of § 1498(a) between private parties because in such a situation § 1498(a) is an affirmative defense. *Manville*, 917 F.2d at 555 & n.6, 16 USPQ2d at 1595-96 & n.6. As a result, one possible consequence of dismissal based on this defense is a suit against the government in the Court of Federal Claims. *Id.* at 555 & n.8, 16 USPQ2d at 1596 & n.8. In the sphere of this sovereign immunity influence on the defense, the teachings of *Crater* and *Manville* illustrate two errors by the district court in dismissing the claims for Duke's use of the '103 patent under the ONR grant.

First, the district court relied on the doctrine of jurisdictional facts when, as between private parties, § 1498(a) is not jurisdictional. *Id.* at 555 & n.6, 16 USPQ2d at 1595-96 & n.6. The district court applied the Fourth Circuit's general jurisdictional facts doctrine. This is error because Federal Circuit law provides the applicable interpretation of § 1498(a). Section 1498(a) applies exclusively to patent law, meaning that Federal Circuit law applies. *Nat'l Presto*, 76 F.3d at 1188 n.2, 37 USPQ2d at 1686 n.2. One might counter-argue that § 1498(a) is procedural. However, to the extent that § 1498(a) is procedural, it is unique to patent law, which also indicates that Federal Circuit law applies. *Id.* Federal Circuit law, under *Crater* and *Manville*, teaches that § 1498(a) is an affirmative

defense and is not jurisdictional. *Crater*, 255 F.3d at 1364, 59 USPQ2d at 1045; *Manville*, 917 F.2d at 555 & n.6, 16 USPQ2d at 1595-96 & n.6. Because § 1498(a) is not jurisdictional, the jurisdictional facts doctrine does not apply. Therefore, the basis for the district court's partial dismissal was improper.

Second, by failing to explain or demonstrate precisely how the ONR grant authorizes the government's consent to suit or authorizes Duke to use or manufacture the patented articles for the government, the district court has provided no findings or analysis upon which we can base our review of the issue appealed from the court's *Dismissal Opinion*. Although a research grant may not meet the requirements of § 1498(a), from the limited record presented by the parties, it cannot be determined whether the ONR grant may authorize the necessary predicates for § 1498(a). However, even if Duke ultimately prevails on its assertion of § 1498(a) as an affirmative defense for its use of the '103 patent under the ONR grant, that does not mean that the district court's dismissal of the claim was without error. The ultimate factual and liability determinations are issues for the district court to determine initially on remand because in addition to evaluating the ONR grant and making the requisite findings, as it noted in its *Dismissal Opinion*, it has not yet determined which uses fall within the scope of the ONR grant and which uses are outside that scope. *See Dismissal Opinion* at 13. This determination, as well, seems necessary to support the dismissal in-part.

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C. The District Court's Application of Experimental Use

On appeal, Madey asserts three primary errors related to experimental use. First, Madey claims that the district court improperly shifted the burden to Madey to prove that Duke's use was not experimental. Second, Madey argues that the district court applied an overly broad version of the very narrow experimental use defense inconsistent with our precedent. Third, Madey attacks the supporting evidence relied on by the district court as overly general and not indicative of the specific propositions and findings required by the experimental use defense, and further argues that there is no support in the record before us to allow any court to apply the very narrow experimental use defense to Duke's ongoing FEL lab operation. We substantially agree with Madey on all three points. In addition, Madey makes a threshold argument concerning the continued existence of the experimental use doctrine in any form, which we turn to first. Our precedent, to which we are bound, continues to recognize the judicially created experimental use defense, however, in a very limited form.

The Experimental Use Defense

Citing the concurring opinion in *Embrex*, Madey contends that the Supreme Court's opinion in *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997) eliminates the experimental use defense. *Embrex*, 216 F.3d at 1352-53, 55 USPQ2d at 1166-67 (Rader, J., concurring). The Supreme Court held in *Warner-Jenkinson* that intent plays no role in the application of the doctrine of equivalents. *Warner-Jenkinson*, 520 U.S. at 36. Madey implicitly argues

that the experimental use defense necessarily incorporates an intent inquiry, and thus is inconsistent with *Warner-Jenkinson*. Like the majority in *Embrex*, we do not view such an inconsistency as inescapable, and conclude the experimental use defense persists albeit in the very narrow form articulated by this court in *Embrex*, 216 F.3d at 1349, 55 USPQ2d at 1163, and in *Roche*, 733 F.2d at 863, 221 USPQ at 940.

The District Court Improperly Shifted the Burden to Madey

As a precursor to the burden-shifting issue, Madey argues that the experimental use defense is an affirmative defense that Duke must plead or lose. We disagree. Madey points to no source of authority for its assertion that experimental use is an affirmative defense. Indeed, we have referred to the defense in a variety of ways. *See Roche*, 733 F.2d at 862, 221 USPQ at 939-40 (referring to experimental use as both an exception and a defense). Given this lack of precise treatment in the precedent, Madey has no basis to support its affirmative defense argument. The district court and the parties in the present case joined the issue during the summary judgment briefing. We see no mandate from our precedent, nor any compelling reason from other considerations, why the opportunity to raise the defense if not raised in the responsive pleading should not also be available at the later stages of a case, within the procedural discretion typically afforded the trial court judge.

The district court held that in order for Madey to overcome his burden to establish actionable infringement, he must establish that Duke did not use the patent-covered

free electron laser equipment solely for experimental or other non-profit purposes. *Summary Judgment Opinion* at 10. Madey argues that this improperly shifts the burden to the patentee and conflates the experimental use defense with the initial infringement inquiry.

We agree with Madey that the district court improperly shifted the burden to him. The district court folded the experimental use defense into the baseline assessment as to whether Duke infringed the patents. Duke characterizes the district court's holding as expressing the following sequence: first, the court recognized that Madey carried his burden of proof on infringement; second, the court held that Duke carried its burden of proof on the experimental use defense; and third, the court held that Madey was unable to marshal sufficient evidence to rebut Duke's shifting of the burden. We disagree with Duke's reading of the district court's opinion. *See Summary Judgment Opinion* at 8-14. The district court explicitly contradicts Duke's argument by stating that Madey failed to "meet its burden to establish patent infringement by a preponderance of the evidence." *Id.* at 13. This statement is an assessment of whether Madey supported his initial infringement claim. It is not an assessment of which party carried or shifted the burden of evidence related to the experimental use defense. Thus, the district court did not conclude that Madey failed to rebut Duke's assertion of the experimental use defense. Instead, it erroneously required Madey to show as a part of his initial claim that Duke's use was not experimental. The defense, if available at all, must be established by Duke.

Appendix A

The District Court's Overly Broad Conception of Experimental Use

Madey argues, and we agree, that the district court had an overly broad conception of the very narrow and strictly limited experimental use defense. The district court stated that the experimental use defense inoculated uses that "were solely for research, academic, or experimental purposes," and that the defense covered use that "is made for experimental, non-profit purposes only." *Id.* at 9. Both formulations are too broad and stand in sharp contrast to our admonitions in *Embrex* and *Roche* that the experimental use defense is very narrow and strictly limited. In *Embrex*, we followed the teachings of *Roche* and *Pitcairn* to hold that the defense was very narrow and limited to actions performed "for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry." *Embrex*, 216 F.3d at 1349, 55 USPQ2d at 1163. Further, use does not qualify for the experimental use defense when it is undertaken in the "guise of scientific inquiry" but has "definite, cognizable, and not insubstantial commercial purposes." *Id.* (quoting *Roche*, 733 F.2d at 863, 221 USPQ at 941). The concurring opinion in *Embrex* expresses a similar view: use is disqualified from the defense if it has the "slightest commercial implication." *Id.* at 1353, 55 USPQ2d at 1166. Moreover, use in keeping with the legitimate business of the alleged infringer does not qualify for the experimental use defense. *See Pitcairn*, 547 F.2d at 1125-26, 192 USPQ at 625. The district court supported its conclusion with a citation to *Ruth v. Stearns-Roger Mfg. Co.*, 12 F. Supp. 697, 713 (D. Colo. 1935), a case that is not binding precedent for this court.

Appendix A

The *Ruth* case represents the conceptual dilemma that may have led the district court astray. Cases evaluating the experimental use defense are few, and those involving non-profit, educational alleged infringers are even fewer. In *Ruth*, the court concluded that a manufacturer of equipment covered by patents was not liable for contributory infringement because the end-user purchaser was the Colorado School of Mines, which used the equipment in furtherance of its educational purpose. *Id.* Thus, the combination of apparent lack of commerciality, with the non-profit status of an educational institution, prompted the court in *Ruth*, without any detailed analysis of the character, nature and effect of the use, to hold that the experimental use defense applied. *Id.* This is not consistent with the binding precedent of our case law postulated by *Embrex*, *Roche* and *Pitcairn*.

Our precedent clearly does not immunize use that is in any way commercial in nature. Similarly, our precedent does not immunize any conduct that is in keeping with the alleged infringer's legitimate business, regardless of commercial implications. For example, major research universities, such as Duke, often sanction and fund research projects with arguably no commercial application whatsoever. However, these projects unmistakably further the institution's legitimate business objectives, including educating and enlightening students and faculty participating in these projects. These projects also serve, for example, to increase the status of the institution and lure lucrative research grants, students and faculty.

In short, regardless of whether a particular institution or entity is engaged in an endeavor for commercial gain, so long as the act is in furtherance of the alleged infringer's legitimate business and is not solely for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry, the act does not qualify for the very narrow and strictly limited experimental use defense. Moreover, the profit or non-profit status of the user is not determinative.

In the present case, the district court attached too great a weight to the non-profit, educational status of Duke, effectively suppressing the fact that Duke's acts appear to be in accordance with any reasonable interpretation of Duke's legitimate business objectives.[7] On remand, the district court will have to significantly narrow and limit its conception of the experimental use defense. The correct focus should not be on the non-profit status of Duke but on the legitimate business Duke is involved in and whether or not the use was solely for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry.

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7. Duke's patent and licensing policy may support its primary function as an educational institution. *See Duke University Policy on Inventions, Patents, and Technology Transfer* (1996), *available at http:// www.ors.duke.edu/policies/patpol.htm* (last visited Oct. 3, 2002). Duke, however, like other major research institutions of higher learning, is not shy in pursuing an aggressive patent licensing program from which it derives a not insubstantial revenue stream. *See id.*

Appendix A

D. The District Court's Analysis of the Test Stand Gun Motion

In contrast to our conclusion that the district court erred in its dismissal-in-part of the alleged '103 patent infringement and its application of the experimental use defense, we find no error in the court's summary judgment conclusion that there is no genuine issue of material fact concerning Duke's non-use of the NCCU Microwave Gun Test Stand during the relevant time period.

Specifically, the district court found that NCCU, through the subcontractor agreement it had with Duke, owned the Microwave Gun Test Stand, and that Dr. Jones of NCCU controlled the gun with a key switch. Even though the gun was located on Duke's premises, Dr. Jones stated that no Duke faculty member or employee had used the gun during the relevant time period. This evidence of ownership, control, and no known Duke use, is sufficient to shift the summary judgment burden to Madey, who, in the district court's words, offers in response only bare allegations and speculation. Most of the response is testimony by Madey himself.

Madey contends that Duke and Dr. Jones have tacitly admitted to disputed questions of fact concerning whether Duke had any control or benefit over the Microwave Gun Test Stand. In addition, Madey contends that joint publications by Dr. Jones and Duke faculty, as well as research interests held by Duke faculty in areas potentially implicated by the Microwave Gun Test Stand, demonstrate disputed material facts about Duke's benefit and influence over the gun. Like the district court, we do not find that the

record supports Madey's contentions, nor do we concur in the inferences in which Madey would have us draw. *See Anderson*, 477 U.S. at 248 (explaining that a party cannot create a genuine issue of material fact based on mere allegations, but must present actual evidence); *Amgen, Inc. v. Chugai Pharm. Co.*, 927 F.2d 1200, 1206-07, 18 USPQ2d 1016, 1021 (Fed. Cir. 1991) (explaining that the patent-holder's alleged inferences were mere speculation and thus not supportable).

In addition, we note that the record does not indicate that Madey plead any vicarious liability claims, such as alleging that Duke induced NCCU's infringement, or contributory infringement claims. To the extent that this was a strategic decision or tactical choice on Madey's part, he should not be allowed to overcome this choice now by acceptance of allegations and speculation as genuine issues of material fact.

E. Additional Matters

Finally, we note two additional matters in response to the parties' arguments before us and for the district court's attention on remand.

Duke's Assertion of a Government License Defense

Before this court, Duke argued vehemently that even if we did not agree with the district court's application of the experimental use defense that we could affirm the district court's judgment on alternate grounds: that the government had a license to have the patents at issue practiced on its

behalf. We disagree with Duke's assertion because it overstates the information contained in the record on appeal. The only concrete evidence Duke cites is the statements on each of the patents noting that the government has rights in the patents. This, however, is insufficient because these short notations on the patents do not define the scope of the government's rights. None of the controlling contracts that would define the scope of such rights are provided in the record nor discussed by Duke in its arguments.

In addition, Duke discusses at length the Bayh-Dole Act, urging that this provides a basis to conclude that the scope of the rights granted to the government encompass Duke's use. Madey, however, notes that the provisions cited by Duke were enacted into law after Madey's two patents issued. Thus, some other provision may have generated the "government rights" notation on the two patents. In sum, this discussion serves to illustrate that the government license issue needs further development before the district court if it is to ultimately provide Duke the defense it seeks.

The District Court's Supplemental Jurisdiction Determination

At the end of its *Summary Judgment Opinion*, the district court declined to exercise supplemental jurisdiction over four state law claims remaining in the case: conversion of property, misappropriation of business opportunities, constructive fraud, and breach of contract. *Summary Judgment Opinion* at 20 n.6. On remand, given our reversal of the district court's application of the experimental use defense, these claims are still initially available to Madey.

III. CONCLUSION

The district court erred in its application of the common law experimental use defense, and, consequently, incorrectly found that there was no genuine issue of material fact upon which Madey could prevail. In addition, the court's dismissal-in-part of Duke's use of the '103 patent embodiments under the government ONR grant was in error. Due to these errors, further proceedings are necessary. This includes the opportunity for the district court to reevaluate the issues we remand in light of this opinion, for the parties to litigate Duke's asserted government license defense, and for the court to potentially consider the state law claims in accordance with the case's progression. Accordingly, we affirm-in-part and reverse-in-part the district court's decision and remand for additional proceedings consistent with this opinion.

AFFIRMED-IN-PART, REVERSED-IN-PART, AND REMANDED.

COSTS

No costs.

APPENDIX B — MEMORANDUM OPINION AND ORDER AND JUDGMENT OF THE UNITED STATES DISTRICT COURT FOR THE MIDDLE DISTRICT OF NORTH CAROLINA DATED AND FILED JUNE 15, 2001

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA

1:97CV01170

JOHN M. J. MADEY,

Plaintiff,

v.

DUKE UNIVERSITY,

Defendant.

MEMORANDUM OPINION

BEATY, District Judge.

This matter is presently before the Court on Defendant Duke University's motions for partial summary judgment. Specifically, Defendant has submitted the following motions for consideration in response to Plaintiff's claims: (1) a Motion for Partial Summary Judgment of Non-Infringement of the '103 and '994 Patents Based on Government License ("Patent Motion") [Document # 65]; (2) a Motion for Partial Summary Judgment of Non-Infringement with Respect to the NCCU Test Stand

Gun ("Test Stand Gun Motion") [Document # 60]; and (3) a Motion for Partial Summary Judgment on the State Law Claims ("State Law Motion") [Document # 63]. For the reasons that follow, Defendant's Patent Motion and Defendant's Test Stand Gun Motion are GRANTED. In view of the Court's decision with respect to these motions, the Court will decline to exercise supplemental jurisdiction over Plaintiff's state law claims. Accordingly, Defendant's State Law Motion is not addressed by this Memorandum Opinion.

I. FACTS AND PROCEDURAL BACKGROUND

Plaintiff John M. J. Madey ("Plaintiff" or "Dr. Madey") is an internationally known scientist and scholar in the field of electromagnetic radiation and its uses. Dr. Madey was hired by Defendant Duke University ("Defendant", "Duke", "the University") in 1989 as a professor, primarily to assist the University in establishing a Free Electron Laser Laboratory ("FEL Lab") and research program. Before coming to Duke, Plaintiff secured United States Patent Number 4,641,103 for the microwave electron guns now used in the FEL Lab ("103 Patent"). Plaintiff is also the co-owner and exclusive patent holder for United States Patent Number 5,130,994 ("994 Patent"), the patent that covers the Mark III, a Free Electron Laser that is also currently in use in the FEL Lab.

In light of Plaintiff's then-recent developments, Plaintiff thought it necessary, based on his prior experiences with Stanford University, to obtain certain assurances from Duke covering his work and the equipment that would be used in furtherance thereof.[1] Accordingly, Plaintiff and Defendant

1. Prior to coming to Duke University, Plaintiff was a professor and researcher at Stanford University.

allegedly entered into a Research Agreement that detailed the terms upon which Plaintiff would transfer to the University. According to Plaintiff's First Amended and Supplemental Complaint, the Research Agreement provided for the following arrangements: that Plaintiff would become a tenured faculty member of the Department of Physics, as outlined in the Duke University Faculty Handbook, that Plaintiff would locate his research and patented equipment in the FEL Lab constructed by Duke, that Plaintiff would assist the University in obtaining research grants and serve as Principal Investigator of said grants, that Plaintiff would be the Director of the FEL Lab, and that Plaintiff would be permitted to pursue research of interest to him using the laboratory's equipment and facilities. (Pl.'s First Am. & Supplemental Compl. ¶ 14.)

At some point following Plaintiff's arrival at Duke, Defendant and North Carolina Central University ("NCCU") entered into a subcontract with respect to what has been termed by Defendant as "the NCCU test stand gun" ("test gun"). Under the subcontract, Defendant was to assist NCCU in performing its research of the test gun, a gun that was closely "patterned on the microwave gun of the highly successful MKIII FEL." (Ex. A, Attach. 4; Ex. A, App. A, p. 2.) The test gun was assembled and constructed pursuant to the AFOSR-0062K Contract ("AFOSR Contract"), a contract that was awarded to NCCU by the Government. (Def.'s Ex. A, Attach. 1.) The AFOSR Contract's stated purpose was to "[d]evelop and study a microwave driven electron gun suitable for experiments to generate high frequency electromagnetic radiation." (*Id.* at 2.) The AFOSR Contract listed NCCU as the Contractor, listed Dr. Charles

Ronald Jones, an NCCU professor, as the Principal Investigator, and listed the test gun as an asset of NCCU. (Def.'s Ex. A, Attach. 3, p. 193.) The AFOSR Contract also provided for reimbursement for the work performed under the subcontract between Defendant and NCCU, so long as the costs of the subcontract did not exceed $45,117. (Ex. A, Attach. 1, p. 8.)

As to the respective responsibilities under the subcontract, Dr. Jones served as Principal Investigator and Dr. Stephen Benson, a professor at Duke, served as Senior Investigator. Pursuant to the subcontract, the test gun would be assembled and installed in the Physics Building on Defendant's campus to take advantage of the sophisticated fabrication techniques available through Defendant's shop facilities. (Ex. A ¶ 7.) The Physics Building at Duke was also considered to be an ideal location for the construction of the test gun because Defendant had an already established Radiation Safety Committee. (*See id.*)

Following the construction of the test gun, NCCU was awarded Grant No. DAAH04-93-G-0230 from the Army Research Office. (Ex. A, Attach. 5, p. 1.) This grant was entitled "Commissioning and Characterization of a Microwave Electron Gun." (*Id.*) In connection with the grant, Defendant submitted a research proposal to NCCU, proposing to "participate in the commissioning and characterization of the NCCU electron gun." (*Id.* at App. A, pp. 1-2.) Plaintiff endorsed the proposal submitted by Defendant, named himself as Principal Investigator, and signed the proposal on behalf of Defendant. (*Id.* at 1). NCCU accepted this proposal, and, on or about February 23, 1994, NCCU and Defendant entered into a second subcontract

based upon the proposal. (Ex. A, Attach. 7.) As to the responsibilities under the second contract, Dr. Jones served as Principal Investigator and Plaintiff served as the Senior Investigator.

Also with Plaintiff's assistance, the University received a federal research grant from the Office of Naval Research (the "ONR grant"). (Pl.'s First Am. & Supplemental Compl. ¶ 21.) Under the terms of the ONR grant, Plaintiff was to be the Principal Investigator for the research conducted by the University. (*Id.* at ¶ 22.) The agreement further provided that Plaintiff would have the authority to direct the research and expenditure of grant funds in accordance with the terms and conditions of the grant proposal. (*See id.*) Despite the terms set forth in the proposal, Plaintiff claims that Duke University revised the plans for construction of the FEL Lab in order to accommodate the research interests of other professors in the field of nuclear physics. (*Id.* at ¶ 32.) Plaintiff objected to the changed plans on scientific grounds and because he considered the changed plans to be an improper diversion of federal research funds. (*Id.* at ¶ 40.) According to Plaintiff, as a result of his objections, Defendant conspired to take control of the FEL Lab and his patented technology. (*Id.* at ¶ 42.) Plaintiff further claims that when he objected to the changed plans, members of the University faculty conceived of a plan to remove Plaintiff from his position of authority by engaging in the following courses of action. First, a second Director was appointed to run the FEL Lab along with Plaintiff, thereby creating a situation wherein Plaintiff's objections to changes within the Lab could be neutralized by the second Director. (*Id.* at ¶ 43). Second, Defendant created an advisory committee, composed of senior

administrators committed to the changed plans advocated by Defendant. (*Id.* at ¶ 44.) This committee had the power to veto decisions made by Plaintiff. (*Id.*). Finally, Plaintiff alleges that after he objected to these changes in the management of the Lab, Defendant removed him from his position as Director of the Lab and petitioned the Office of Naval Research to remove Plaintiff from his position as Principal Investigator on the ONR grant. (*Id.* at ¶¶ 52-56.) Since his removal, Plaintiff claims that Defendant's officials have asserted control and authority over all aspects of the research project, including the hiring and firing of personnel, the procurement of equipment and supplies, and other decisions that were within the responsibility of the Principal Investigator. (*Id.* at ¶ 54.) Shortly upon being removed from his position, and because Plaintiff objected to the manner in which the research program was being executed, Plaintiff submitted his resignation to the University. (*Id.* at ¶ 60.). Although Plaintiff's resignation became effective as of August 31, 1998, Plaintiff contends that Defendant continued to make use of the FEL equipment even after his departure. Moreover, although Plaintiff concedes that the overwhelming majority of Defendant's uses of the patented devices were for academic or experimental purposes, Plaintiff alleges that Defendant has damaged him with respect to the patented devices by depriving him "of his rights and property." (*Id.* at ¶ 57; Def.'s Ex. 4, at 173-91, Dep. of John M.J. Madey.) Plaintiff also notes that some of the research was funded by private foundations and that Defendant submitted proposals to private sources to obtain additional funding for the research program. To the extent that this occurred, Plaintiff alleges that some of the research conducted by Defendant was commercial in nature (Def.'s Ex. 4, at 173-91, Dep. of John M.J. Madey.)

As a result of all of the alleged foregoing events, Plaintiff filed the instant action, claiming infringement of the two patents (Counts I and II), conversion of property and misappropriation of business opportunities (Count III), violation of 29 U.S.C. §§ 621-634 (Count IV), violation of Plaintiff's civil rights as protected under 42 U.S.C. § 1983 (Count V), constructive fraud (Count VI), and breach of contract (Count VII). Defendant then moved to dismiss Plaintiff's Complaint, pursuant to Rules 9(b), 12(b)(1), 12(b)(6), and 12(h)(3) of the Federal Rules of Civil Procedure. Defendant's Motion to Dismiss was granted with respect to Counts IV and V; however, said motion was denied with respect to Plaintiff's other claims. Defendant has most recently filed the following motions in response to Plaintiff's remaining claims: (1) a Motion for Partial Summary Judgment of Non-Infringement of the '103 and '994 Patents Based on Government License ("Patent Motion"); (2) a Motion for Partial Summary Judgment of Non-Infringement of the '103 Patent with Respect to the NCCU Test Stand Gun ("Test Stand Gun Motion"); and a Motion for Partial Summary judgment on the State Law Claims ("State Law Motion"). Given Defendant's motions, the Court next turns to the standard of review for summary judgment claims.

II. DISCUSSION

A. Standard of Review

Summary Judgment is appropriate when "there is no genuine issue of material fact . . . and the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c).

Material facts are those "that might affect the outcome of the suit under the governing law . . . ." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S. Ct. 2505, 2510, 91 L. Ed. 2d 202, 211 (1986). A genuine issue of material fact exists "if the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Id.*

In making a determination on a summary judgment motion, the Court views the evidence in the light most favorable to the nonmoving party, according that party the benefit of all reasonable inferences. *See Bailey v. Blue Cross & Blue Shield of Va.*, 67 F.3d 53, 56 (4th Cir. 1995), *cert. denied*, 516 U.S. 1159, 116 S. Ct. 1043, 134 L. Ed. 2d 190 (1996). However, mere allegations and denials are insufficient to establish a genuine issue of material fact. *See Anderson*, 477 U.S. at 248, 106 S. Ct. at 2510. Indeed, judges are not " 'required to submit a question to a jury merely because some evidence has been introduced by the party having the burden of proof, unless the evidence be of such a character that it would warrant the jury in finding a verdict in favor of that party.' " *Id.* at 251, 106 S. Ct. at 2511 (quoting *Schuylkill & Dauphin Improvement Co. v. Munson*, 81 U.S. (14 Wall.) 442, 448, 20 L. Ed. 867, 872 (1987)). Therefore, a motion for summary judgment may be granted "against a party who fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial." *Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 106 S. Ct. 2548, 2552, 91 L. Ed. 2d 265, 273 (1986). On the other hand, a motion for summary judgment should not be granted " 'unless the entire record shows a right to judgment with such clarity as to leave no room for controversy and

establishes affirmatively that the adverse party cannot prevail under any circumstances.' " *Campbell v. Hewitt, Coleman & Assocs., Inc.*, 21 F.3d 52, 55 (4th Cir. 1994) (quoting *Phoenix Sav. & Loan, Inc. v. Aetna Cas. & Sur. Co.*, 381 F.2d 245, 249 (4th Cir. 1967)). In light of this standard for summary judgment, each of Defendant's motions for partial summary judgment is next addressed in turn.

B. Patent Motion

Plaintiff Madey first alleges that Defendant infringed his '103 Patent and his '994 Patent, respectively, by manufacturing and using microwave guns in its FEL Lab, and by using the "Mark III FEL" in the FEL Lab. Defendant has moved for partial summary judgment as to both of Plaintiff's claims of patent infringement, asserting that the activity about which Plaintiff complains constitutes "non-commercial, academic research," that is exempted by the experimental use exception from infringement liability. (Def.'s Mot. for Partial Summ. J. of Non-Infringement of the '103 & '994 Patents Based on Government License, at 8.) Defendant also contends that, to the extent that "essentially all" of its research, with respect to both patents, was authorized by the Government, conducted for the Government, or funded by the Government, said research was covered by government license and, accordingly, not subject to infringement liability. (*Id.* at 3.) In light of Defendant's assertions, the Court first turns to the experimental use exception and its applicability to the case at bar.

Appendix B

Although the "basic law of patents establishes that unauthorized use of a patented product or process constitutes infringement," for well over a century, United States "patent jurisprudence has paid homage to . . . an exception from infringement liability for . . . unauthorized uses of patented inventions[,]" where the uses were solely for research, academic, or experimental purposes. *Deuterium Core. v. United States*, 19 Cl. Ct. 624, 630 (1994); Janice M. Mueller, *No "Dilettante Affair": Rethinking the Experimental Use Exception to Patent Infringement for Biomedical Research Tools*, 76 Wash. L. Rev. 1, 17 (2001); *Whittemore v. Cutter*, 29 F. Cas. 1120 (C.C.D. Mass. 1813) (No. 17,600); 5 Donald S. Chisum, *Chisum on Patents* § 16.03[1] (2000). As expressed by Justice Story in *Whittemore v. Cutter*, the case in which the experimental use doctrine originated, the underlying rationale for exempting such uses from liability is that "it could never have been the intention of the legislature to punish a man, who constructed a . . . [patented device] merely for philosophical experiments. . . ." 29 F. Cas. at 1121. Although the scope of the defense has recently been the issue of much debate, to date, the experimental use defense remains viable and may be asserted in those cases in which the allegedly infringing use of the patent is made for experimental, non-profit purposes only. *See, e.g., Embrex, Inc. v. Service Engineering Corp.*, 216 F.3d 1343, 1349 (Fed. Cir. 2000) (explaining that the experimental use exception is a valid defense, but that it should not be construed "so broadly as to allow a violation of the patent laws in the guise of 'scientific inquiry,' when that inquiry has definite, cognizable, and not insubstantial commercial purposes"); *Deuterium*, 19 Cl. Ct. at 630 (instructing that an experimental use of a patented device does not constitute patent

infringement); *Giese v. Pierce Chemical Co.*, 29 F. Supp. 2d 33 (D. Mass. 1998) (same); Julie Cohen, *Patent Scope & Innovation in the Software Industry*, 89 Cal. L. Rev. 1, 29 (2001) ("It has been settled law that purely experimental uses were noninfringing."). Given this standard, for Plaintiff to overcome his burden of establishing actionable infringement in this case, he must establish that Defendant has not used the equipment at issue "solely for an experimental or other non-profit purpose." 5 Donald S. Chisum, *Chisum on Patents* § 16.03[1] (2000). More specifically, Plaintiff must sufficiently establish that Defendant's use of the patent had "definite, cognizable, and not insubstantial commercial purposes." *Roche Products v. Bolar Pharm. Co.*, 733 F.2d 858, 863 (Fed. Cir. 1984), *cert. denied*, 469 U.S. 856, 863 (1984) (explaining that the experimental use exception is truly narrow and that it bans all activities that are grounded on a *profit or commercial motive*) (superseded on other grounds by 35 U.S.C. § 271(e) (1994)); *Sawin v. Guild*, 21 F. Cas. 554, 555 (C.C.D. Mass. 1813) (No. 12,390) ("[T]he making [of an invention] with an intent to use for profit, and not for the mere purpose of philosophical experiment [is actionable.] In other words, . . . the making must be with an intent to infringe the patent right, and deprive the owner of the lawful rewards of his discovery [to be actionable as patent infringement.]").

In this case, Plaintiff generally contends that Defendant's research in the FEL Lab was undertaken with commercial intent, thus disqualifying Defendant from the exception's protection. First, Plaintiff relies on *Pitcairn v. United States*, 547 F.2d 1106 (Ct. Cl. 1976), *cert. denied*, 434 U.S. 1051, 98 S. Ct. 903, 54 L. Ed. 2d 804 (1978), in support of this

contention. In *Pitcairn*, the patent covered rotor structures and control systems on helicopters that the plaintiff had made for the military. *See id.* at 1110-11. The Government used the patented devices on its helicopters and then claimed that its use of the patented invention was necessary to test the helicopters for "lifting ability, for the effect of vibration on installed equipment, flight speed and range, engine efficiency, and numerous other factors." *Id.* at 1125. Despite the Government's contention that its uses were only experimental in nature, the court held the experimental use exception not to apply. *See id.* at 1126. According to the court, the uses made by the Government were intended uses of the infringing patent to the extent that they were "in keeping with the legitimate business of the using agency[.]" *Id.* at 1125-26. In sum, because the helicopters employing the patented devices were not built solely for experimental purposes, but also for the purpose of benefitting the Government in its legitimate business, the exception did not apply. *See id.*

Based on the logic in *Pitcairn*, Plaintiff points to Defendant's Policy on Inventions, Patents, and Technology Transfer to argue that, because Defendant is "in the business" of "obtaining grants and developing possible commercial applications for the fruits of its 'academic research,'" the experimental use exception does not apply to the facts in this case. Despite Plaintiff's argument, the Preamble and Objectives of the Policy on which he relies note in pertinent part:

> Duke University is *dedicated to teaching, research, and the expansion of knowledge.* Although the University *does not undertake research or*

> *developmental work principally for the purpose of developing patents and commercial applications*, patentable inventions sometimes result from the research activities carried out wholly or in part with University funds and facilities. It is the policy of the University to assure the utilization of such inventions for the common good and, where necessary, to pursue patents and licenses to encourage their development and marketing.
>
> Duke University has established the following policies and procedures with respect to inventions, patents and technology transfer in order to:
>
> A. Promote the University's *academic policy of encouraging scientific research and scholarship*. . . .

Given this specific language, the Policy does not indicate, as Plaintiff suggests, that Defendant is "in the business" of patenting and developing devices for *commercial purposes*. Instead, it suggests, to the contrary, that Defendant's primary purpose is to teach, research, and expand knowledge, and to not engage in patent development for the purpose of commercial benefit. Therefore, Plaintiff "has failed to produce contradictory evidence on [the matter of commercial intent] sufficient to survive summary judgment." *Planmatics, Inc. v. Showers*, 137 F. Supp. 2d 616, 628 (D. Md. 2001). Plaintiff's mere speculation that Defendant intends, in this case, to stray from its general policy of using patents for academic and educational purposes is insufficient to create a genuine issue of material fact. *See* Fed. R. Civ. P. 56(e); *Anderson*, 477 U.S. at 249, 106 S. Ct. at 2510 (explaining

that "a plaintiff [can not] rest on his allegations of [commercial intent when asserting a patent infringement claim] to get to a jury without any significant probative evidence tending to support the complaint") (quotations and internal quotation marks omitted); *Planmatics*, 137 F. Supp. 2d at 628 (instructing that "[a] party may not create an issue of fact through bald assertions, unsupported contentions, and conclusory statements").

Plaintiff next asserts, in support of his contention that Defendant used the patented devices with commercial intent, that Defendant receives funding from both the Government and from private foundations to cover the expenses of its research program. (Pl.'s Mem. of Law in Opp'n to Duke University's Mots. for Summ. J., at 6.) Despite Plaintiff's reliance on the sources of Defendant's funding, however, the fact that Defendant, as a non-profit institution, has obtained funding from extrinsic sources to fund the program's expenditures does not suggest improper, non-experimental use of the patent, financial gain, or commercial intent, particularly in light of the fact that Defendant has asserted and presented evidence that all of its uses of the devices covered by the '103 and '994 Patents have been in furtherance of its educational purpose or for experimentation only. *See Ruth v. Stearns-Roger Mfg. Co.*, 13 F. Supp. 697, 713 (D. Colo. 1935) (concluding that the experimental use exception applies when a university uses a patented device in furtherance of its educational purpose), *rev'd on other grounds*, 87 F.2d 35 (10th Cir. 1935); Ronald D. Hantman, *Experimental Use as an Exception to Patent Infringement*, 67 J. Pat. Off. Soc'y 617, 633 (1985) (noting that, in light of *Ruth*, "[f]ew would deny the experimental use exception for

research on patented technology performed at a university in furtherance of its educational function"). Without more concrete evidence to rebut Defendant's stated purpose with respect to its research in the FEL Lab, Plaintiff has failed to meet its burden of establishing patent infringement by a preponderance of the evidence. *See, e.g., Afande v. National Lutheran Home for the Aged*, 868 F. Supp. 795, 802 (D. Md. 1994) (explaining that "neither speculative assertions, possibilities of factual disputes, nor a scintilla of evidence in support [of a plaintiff's] position will suffice" to withstand summary judgment) (citations omitted). Specifically, Plaintiff's unsubstantiated allegations of commercial intent, based simply upon the method by which Defendant funds its experimental research, are not sufficient to survive summary judgment. *See Planmatics*, 137 F. Supp. 2d at 627.

Plaintiff next asserts that the experimental use exception does not apply to the case at bar because Defendant claimed "a proprietary interest in the details of its work at the FEL Lab during discovery in this case." (Pl.'s Mem. of Law in Opp'n to Duke University's Mots. for Summ. J., at 6-7.) This type of assertion, from which the Court would have to draw "leaping inferences", is not enough to withstand summary judgment. *Miller v. Mercy Hosp., Inc.*, 720 F.2d 356, 363 (4th Cir. 1983) (noting that "leaps of inference [cannot] be made under the legal constraints imposed by applicable proof burdens and the requirements of demonstrable rationality in the fact-finding process"), *cert. denied*, 470 U.S. 1083, 105 S. Ct. 1841, 85 L. Ed. 2d 141 (1985); *McClamb v. Rubin*, 932 F. Supp. 706, 712 (M.D.N.C. 1996) (explaining that a plaintiff cannot survive summary judgment through mere speculation or the building of one inference upon another) (citations omitted). Specifically, even assuming that

Plaintiff's unsupported allegation is correct, the Court would have to infer from the fact that Defendant has claimed ownership in some of its research that it intends to take commercial advantage thereof. Such an inference cannot reasonably be drawn at this point, in light of Defendant's prior uses of the patented devices, which, without a contrary showing by Plaintiff, have all been experimental or educational in nature.

For all of the foregoing reasons, the Court concludes that Plaintiff's broad assertions and mere speculation as to Defendant's intent to commercially benefit from the devices covered by the '994 and the '103 Patents fail to create a genuine issue of material fact. *See Afande*, 868 F. Supp. at 802. As the Court has previously mentioned, judges are not "'required to submit a question to a jury merely because some evidence has been introduced by the party having the burden of proof, unless the evidence be of such a character that it would warrant the jury in finding a verdict in favor of that party.'" *Anderson*, 477 U.S. at 251, 106 S. Ct. at 2511 (quoting *Schuylkill & Dauphin Improvement Co. v. Munson*, 81 U.S. (14 Wall.) at 448, 20 L. Ed. at 872. Because the evidence presented in this case is not of such a character "that it would warrant the jury in finding a verdict" in Plaintiff's favor, Defendant's Patent Motion is GRANTED.[2]

2. The Court notes at this point that Plaintiff has also presented certain supplemental evidence in support of his infringement claim, on which he did not rely in his response brief. Specifically, Plaintiff has presented testimony about a fee that Defendant has established for industrial users wishing to use the FEL Lab's resources. (Def.'s Ex. 4, at 173-91.). Although this fee has been in existence for some time, it has not yet been applied. In fact, all users to date,

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even by Plaintiff's own acknowledgment, have been faculty members of Duke, other academics, or non-industrial users seeking to pursue experimental interests. (*See id.*) Therefore, Plaintiff's mere speculation and general averment that such a fee establishes commercial intent, in light of all of the other non-speculative evidence suggesting the contrary, are insufficient to sustain Plaintiff's claim of infringement. *See, e.g., Planmatics*, 137 F. Supp. 2d at 628 ("[U]nsubstantiated allegations . . . are not sufficient to survive summary judgment. A party may not create an issue of fact through bald assertions, unsupported contentions, and conclusory statements.") (citations omitted).

The Court also notes that Plaintiff has attested that Defendant both posted information on its website and issued public announcements on five research programs that are to be carried out at Defendant's new technology center, the Fitzpatrick Center for Photonics & Communication Systems. (Supplemental Aff. of John M.J. Madey ¶ 14.). According to Plaintiff, two of these research programs "involve" FEL technology. (*Id.*) Plaintiff further claims that Defendant's website indicates that Defendant will engage in corporate partnerships in furtherance of its research goals. (*Id.* ¶ 15.) Plaintiff then concludes that "[i]t is evident from these materials that research activity is currently underway and that greater use of the patented equipment is planned." However, despite Plaintiff's assertions and conclusions with respect to these informational sources, the text to which Plaintiff points in support of his claim is too broad and too vague to establish that Defendant intends to commercially benefit from the *FEL technology* specifically, which composes only a portion of the technology to be used by the center for its programs. Moreover, even assuming that the language to which Plaintiff points does apply to the use of FEL technology in the new center, this language refers to the development and licensing of *new* technology, and not of equipment or patents currently in existence. Therefore, Plaintiff has
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To the extent that the Court has granted Defendant's Patent Motion, Defendant's alternative argument that "essentially all" of its uses with respect to the '994 and '103 Patents were covered by Government license is moot. The Court does note, however, as it did previously when ruling upon Defendant's Motion to Dismiss, that all uses that have been made of the patented devices that are covered by such a license are not subject to infringement liability.[3]

(Cont'd)

not presented enough evidence from which a reasonable jury can conclude that the objectives of the center with respect to Plaintiff's FEL technology are improper, and Plaintiff's mere forecast of the same is not legally competent evidence sufficient to rebut Defendant's evidence of non-commercial intent. *Planmatics*, 137 F. Supp. 2d at 628 (explaining that a plaintiff must produce "legally competent evidence from [which] a jury could reasonably" conclude in the plaintiff's favor); *Miller*, 121 F. Supp. 2d at 837 (same).

3. Such a conclusion is supported by the Bayh-Dole Act, 35 U.S.C. §§ 200-212, which establishes that the Government has an irrevocable paid up license to have patents practiced on its behalf, where it has funded the development of such patents. Specifically, the Act provides:

> (c) Each funding agreement [between the Government and] a . . . nonprofit organization shall contain appropriate provisions to effectuate the following:
>
> . . .
>
> (4) With respect to any invention in which the contractor elects rights [to the invention], the Federal Agency shall have a nonexclusive, nontransferrable, irrevocable, paid-up license to practice or have practiced

(Cont'd)

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C. Test Stand Gun Motion

Defendant next moves for partial summary judgment on Plaintiff's claim that both Defendant's manufacture of the test gun and its use of that gun since June of 1997 (hereinafter, the period following June of 1997 will be referred to as "the relevant date") infringe the '103 Patent. According to Defendant, the manufacture, itself, of the test gun does not give rise to a meritorious infringement claim, because the test gun was manufactured with Plaintiff's consent. As to Plaintiff's claim that Defendant's use of the test gun after the relevant date constitutes patent infringement, Defendant simply alleges that said claim is without merit, because it has not used the test gun since the relevant date. The federal patent statute helps to shed light on the merits of Defendant's motion for partial summary judgment.

(Cont'd)

> for or on behalf of the United States any subject invention throughout the world. . . . .

35 U.S.C. § 202(c)(4). In this case, the funding agreements for the inventions created under the '994 and '103 patents expressly provide that the Government retained rights in those inventions. Therefore, in light of the Bayh-Dole Act and said funding agreements, those uses that Defendant has made with respect to the '103 and '994 Patents that have been authorized by the Government do not constitute patent infringement to the extent that such uses are protected by an irrevocable government license.

Although the parties have presented conflicting evidence as to the extent to which the patented devices have been used for a purpose consented to by the Government, because Plaintiff has failed to create a genuine issue of material fact as to whether Defendant has commercially benefitted or intends to do so with respect to the patents at issue, the uses that have been made to date with respect to both patents are, at this point, exempt from infringement liability.

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The federal patent statute provides, in pertinent part, that "whoever *without authority* makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271(a) (emphasis added). In light of this standard, the Court next turns to whether Plaintiff correctly asserts that Defendant's manufacture of the test gun constitutes actionable infringement. Unless Plaintiff can establish that Defendant's manufacture of the test gun was "without [Plaintiff's] authority," Defendant's motion with respect to the gun's manufacture must be granted. Plaintiff, however, is unable to make such a showing.

Specifically, the NCCU test stand gun was assembled and installed in the Physics Building at Duke while Plaintiff was employed at the FEL Lab. In fact, *by Plaintiff's own admission*, Plaintiff had knowledge that the NCCU test stand gun was being constructed, and even supervised the construction thereof. (Def.'s Ex. B, p. 160.) Plaintiff's authorization of the test gun's manufacture is further evidenced by the fact that following completion of the test gun, Defendant, with Plaintiff's assistance, submitted a research proposal to NCCU, proposing to assist in the commissioning and characterization of the gun. (Def.'s Ex. A, App. A, pp. 1-2.) Importantly, Plaintiff endorsed this research proposal by naming himself as Principal Investigator and by signing the proposal on Defendant's behalf. In light of the foregoing facts, Plaintiff unquestionably authorized the manufacture by Defendant of the test gun. Accordingly, Plaintiff's claim of patent infringement must fail, and Defendant's motion for partial summary judgment as to the manufacture of the test gun is GRANTED.

Defendant next moves for partial summary judgment on Plaintiff's claim that Defendant's "use and operation" of the

test gun after the relevant date infringes the '103 Patent. According to Defendant, this motion should be granted because, contrary to Plaintiff's allegations, it did not use the test gun after the relevant date. In support of its motion, Defendant relies on the affidavit of Dr. Charles Ronald Jones, a professor at NCCU.

In his affidavit, Dr. Jones attests that he is the only person authorized by the Duke Radiation Safety Committee to operate the NCCU test stand gun. (Def.'s Ex. A ¶ 14.) In fact, Dr. Jones must be physically present for the NCCU test stand gun to be turned on. (*See id.*) To ensure that no one else uses the device without Dr. Jones' authorization, there is a key switch to the NCCU test stand gun to which Dr. Jones has sole access. (*See id.*) Considering this fact, Dr. Jones would have direct knowledge if Defendant's employees used or operated the NCCU test stand gun for any reason after the relevant date. Yet, according to Dr. Jones, he "is unaware of any Duke faculty member or employee [who has used or operated] the NCCU test stand gun at any time since at least June of 1997," the date on which Plaintiff alleges Defendant's infringement of the '103 Patent began. (*Id.* ¶ 15.) To the extent that Dr. Jones, the sole holder of the key to the test gun, has stated that Defendant's employees and faculty members have not made use of the test gun since the relevant date, no genuine issue of material fact exists as to this point. This is true to the extent that Plaintiff's bald allegations and mere speculation in contradiction of Dr. Jones' testimony are insufficient to withstand summary judgment.[4]

4. The Court also notes at this point that Plaintiff asserts that graduate students at the University have made use of the gun for educational purposes since the relevant date. (Pl.'s Mem. of Law

(Cont'd)

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Plaintiff next argues that Defendant is liable for patent infringement to the extent that *NCCU* professor Dr. Jones has used the test gun since the relevant date. In support of this argument, Plaintiff alleges that Dr. Jones is an authorized agent of the University, and that Dr. Jones has co-authored publications with members of the Duke faculty. (Pl.'s Mem. of Law in Opp'n to Duke University's Mots. for Summ. J., at 2-3.) However, Plaintiff's assertions of agency and of publication by Defendant's faculty members after the relevant date are directly refuted by a second affidavit that was submitted by Dr. Jones. In this second affidavit, Dr. Jones attested that he is not and has never been the authorized agent of Defendant, that Defendant has no control over the operation of the test gun, that the gun is not operated under the control of or for the benefit of Duke, and that all of his publications that were co-authored by Duke faculty members either involved research conducted prior to the relevant date, or did not, in any manner, involve use or operation of the test gun. (Ex. 1, Jones Aff. ¶¶ 2-6.) Not only does the affidavit of Dr. Jones establish that he was not an agent of Duke University, but the subcontract entered into by the parties with respect to the test gun also supports such a conclusion. Specifically, the subcontract expressly provides that "[Duke's] relationship to NCCU under [the] agreement [was] that of an independent Contractor and not an agent, joint venturer or partner of NCCU,"

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in Opp'n to Duke University's Mots. for Summ. J., at 2-3.) Even assuming Plaintiff's version of these facts to be true, the experimental use exception would foreclose Plaintiff's claim of patent infringement. Moreover, Dr. Jones testified, contrary to Plaintiff's assertions, that no student from the University has made use of the test gun since June of 1997. (Ex. 1, Jones Aff. ¶¶ 2-6.) Once again, Plaintiff's general averments, without supporting evidence, contradicting this testimony do not suffice to create a genuine issue of material fact.

suggesting that agency liability does not exist, on either side. In light of these facts, Plaintiff's attempt to hold Defendant accountable for patent infringement because of Dr. Jones' use of the test gun is fatally flawed. For the foregoing reasons, Defendant's Motion for Partial Summary Judgment of Non-Infringement with Respect to the NCCU Test Stand Gun is GRANTED in all respects.[5]

The Court notes at this point that the parties have presented a substantial amount of evidence with respect to the state law claims at issue in this case, in response to and in support of Defendant's State Law Motion.[6] Although the Court has reviewed the aforementioned evidence, the Court will, in its discretion, decline to exercise supplemental jurisdiction over

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5. Although Plaintiff contends in his First Amended and Supplemental Complaint that Defendant infringed his '103 Patent by manufacturing and *previously* using the test gun after the relevant date, in Plaintiff's Supplemental Affidavit, he seemingly suggests that Defendant plans to infringe his '103 Patent *in the future* to the extent that it plans to use the test gun in its new research center. However, for the same reasons that the Court has concluded that the information in the alleged website is insufficient to withstand summary judgment as to the Patent Motion, the Court makes the same finding with respect to the Test Stand Gun Motion. Plaintiff's claim is too speculative at this point to create a genuine issue of material fact.

6. Specifically, Defendant has moved for summary judgment in its State Law Motion on Plaintiff's state law claims of conversion of property, misappropriation of business opportunities, constructive fraud, and breach of contract. To address these claims, both parties have presented numerous documents as to the proper owner of the patented equipment currently housed at Duke. The issue of ownership, however, was not essential to the Court's determination of the patent infringement issues addressed herein.

said claims. Specifically, to the extent that summary judgment has been granted on all of Plaintiff's federal law claims, Plaintiff's state law claims are dismissed without prejudice.

IV. CONCLUSION

For the foregoing reasons, Defendant's Motion for Partial Summary Judgment of Non-Infringement of the '103 and '994 Patents Based on Government License and Defendant's Motion for Partial Summary Judgment of Non-Infringement with Respect to the NCCU Test Stand Gun are GRANTED. Furthermore, because the Court will grant Defendant's motions for partial summary judgment on Plaintiff's federal claims, the Court will not consider Defendant's motion for partial summary judgment as to Plaintiff's remaining state law claims. Instead, pursuant to 28 U.S.C. § 1367(c)(3), the Court will decline to exercise supplemental jurisdiction over Plaintiff's state law claims and dismiss said claims without prejudice.

This, the 15 day of June, 2001.

s/ James A. Beaty
United States District Judge

Appendix B

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA

1:97CV01170

JOHN M. J. MADEY,

Plaintiff,

v.

DUKE UNIVERSITY,

Defendant.

ORDER AND JUDGMENT

BEATY, District Judge.

For the reasons enumerated in the MEMORANDUM OPINION filed contemporaneously herewith,

It is ORDERED, ADJUDGED, AND DECREED that Defendant's Motion for Partial Summary Judgment of Non-Infringement of the '103 and '994 Patents Based on Government License [Document # 65] and Defendant's Motion for Partial Summary Judgment of Non-Infringement with Respect to the NCCU Test Stand Gun [Document # 60] are GRANTED. Furthermore, because the Court grants Defendant's motions for partial summary judgment as to Plaintiff's federal claims, the Court will not consider Defendant's motion for partial summary judgment as to

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Plaintiff's remaining state law claims [Document # 63]. Instead, pursuant to 28 U.S.C. § 1367(c)(3), the Court declines to exercise supplemental jurisdiction over Plaintiff's state law claims, and said claims are dismissed without prejudice.

This, the 15 day of June, 2001.

s/ James A. Beaty
United States District Judge

APPENDIX C — MEMORANDUM OPINION AND ORDER AND JUDGMENT OF THE UNITED STATES DISTRICT COURT FOR THE MIDDLE DISTRICT OF NORTH CAROLINA DATED AND FILED DECEMBER 1, 1999

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA

1:97CV1170

JOHN M. J. MADEY,

Plaintiff,

v.

DUKE UNIVERSITY, CHARLES E. PUTMAN, JOHN STROHBEHN, WILLIAM H. CHAFE, BERNDT MUELLER, BOBBY GUENTHER, and LAWRENCE EVANS

Defendants.

MEMORANDUM OPINION

BEATY, District Judge.

I. INTRODUCTION

This matter is before the Court on the separate motions of Defendant Duke University [Document #30] and Duke Individual Defendants [Document #31], in which both parties move to dismiss John M. J. Madey's First Amended

and Supplemental Complaint [Document # 28] pursuant to Rules 8, 9(b), 12(b)(1), 12(b)(6) and 12(h)(3) of the Federal Rules of Civil Procedure.[1] Plaintiff's Complaint includes claims for infringement of two patents (Counts I and II); conversion of property and misappropriation of business opportunities (Count III); violation of 29 U.S.C. §§ 621-634, the Age Discrimination in Employment Act ("the ADEA") (Count IV); violation of Plaintiff's civil rights as protected under 42 U.S.C. § 1983 (Count V); constructive fraud (Count VI); and breach of contract (Count VII).

II. FACTS

Plaintiff came to Duke University in 1989 as a tenured professor to assist the University in establishing the Free Electron Laser Laboratory ("FEL Lab") and research program. Before coming to Duke, Plaintiff secured United States Patent No. 4,641,103 for the microwave electron guns now used in the FEL Lab at Duke University (" '103 patent"). Plaintiff also developed the Mark III, a Free Electron Laser that he constructed at Stanford University using federal research funds, his own funds, and assistance from Stanford. On July 14, 1992, while serving as a tenured professor at Duke, Plaintiff and E.B. Szarmes secured U.S. Patent No. 5,130,994 (the "994 patent") for the "Free Electron Laser Oscillator for Simultaneous Narrow Spectral Resolution and Fast Time Resolution Spectroscopy." Plaintiff claims that he is now the sole owner of this patent. When Plaintiff left his position at Stanford, Stanford released all ownership

1. The individual Defendants in this action are Charles E. Putman, John Strohbehn, William H. Chafe, Berndt Mueller, Bobby Guenther and Lawrence Evans.

interests in the Mark III and other FEL equipment, leaving Plaintiff as the sole owner subject to the rights of the United States government. Plaintiff claims that as part of the Research Agreement between himself and Duke University, Duke agreed that Plaintiff would retain use and control of his patents and all related equipment.

According to Plaintiff's First Amended and Supplemental Complaint, the Research Agreement between Plaintiff and Defendant Duke University provided that Plaintiff would become a tenured faculty member of the Department of Physics as outlined in the Duke University Faculty Handbook, that Plaintiff would locate his research in the FEL Lab constructed by Duke to house Plaintiff's patented equipment, that Plaintiff would assist the University in obtaining research grants and serve as Principal Investigator of said grants, that Plaintiff would be Director of the FEL Lab, and that Plaintiff would be permitted to pursue research of interest to him using the laboratory's equipment and facilities. Subsequent to Plaintiff's arrival at Duke, the University received a federal research grant from the Office of Naval Research (the "ONR grant"). Under the terms of the ONR grant, Plaintiff was to be the Principal Investigator for the research conducted by the University. He would have the authority to direct the research and expenditure of grant funds in accordance with the terms and conditions of the grant proposal upon which the ONR grant was awarded.

Plaintiff claims that Duke University and the Individual Defendants revised the plans for construction of the FEL Lab facilities in order to accommodate the research interests of other professors in the field of nuclear physics. Plaintiff

objected to the changed plans on scientific grounds and because he considered the changed plans to be an improper diversion of federal research funds. Plaintiff claims that as a result of his objections, Defendant Duke University and Duke Individual Defendants conspired to take control of the FEL Lab and Plaintiff's patented technology. As explained *supra*, Plaintiff alleges that the Defendant revised the plans for construction of the FEL Lab facilities in order to pursue the research of other professors in the Physics Department. Plaintiff claims that when he objected to the changed plans, members of the University faculty conceived of a plan to remove Plaintiff from his position of authority. First, a second Director was appointed to run the lab along with Plaintiff, thereby creating a situation wherein Plaintiff's objections to changes within the Lab could be neutralized by the second Director. (Plain. First Amend. Supp. Comp. at ¶ 43.) Second, Plaintiff claims that Defendant University created an advisory committee, composed of senior administrators committed to the changed plans advocated by Defendant. This committee would have the power to veto decisions made by Plaintiff. (*Id.* at ¶ 44.) Finally, Plaintiff alleged that after he objected to these changes in the management of the Lab, Defendant removed him from his position as Director of the Lab and petitioned the Office of Naval Research to remove Plaintiff from his position as Principal Investigator of the ONR grant. (*Id.* at ¶ 52-26.) Plaintiff claims that in addition Defendants also excluded him from the use of the laboratory and his FEL equipment. (*Id.* at ¶ 52-26.) Plaintiff also claims that Defendants continue to use his FEL equipment. As a result of these alleged events, Plaintiff has brought claims for infringement of the two patents (Counts I and II), conversion of property and misappropriation of business opportunities

(Count III), violation of 29 U.S.C. §§ 621-634 (Count IV), violation of Plaintiff's civil rights as protected under 42 U.S.C. § 1983 (Count V), constructive fraud (Count VI), and breach of contract (Count VII). Plaintiff has brought the claims of patent infringement, conversion, misappropriation of business opportunities, violation of civil rights under § 1983, and constructive fraud against both Duke University and the Individual Duke Defendants. The claims for age discrimination and breach of contract are only alleged against Duke University. Defendants Duke University and the Individual Defendants have moved to dismiss Plaintiff's complaint pursuant to Rules 9(b), 12(b)(1), 12(b)(6), and 12(h)(3) of the Federal Rules of Civil Procedure. The Individual Defendants also move to dismiss Plaintiff's complaint pursuant to Rule 8 of the Federal Rules of Civil Procedure.

III. DISCUSSION

Plaintiff and the Individual Defendants have filed motions between themselves separate and apart from those motions filed between Plaintiff and Defendant Duke University. However, the Individual Defendants incorporate the pleadings of Defendant Duke University into their defense. In most instances, the claims and defenses of the pleadings between the Individual Defendants and Plaintiff are identical to the claims and defenses of the pleadings between Defendant Duke University and Plaintiff. This Court finds, however, that because Plaintiff's allegations against University faculty Putman, Strohbehn, Chafe, Mueller, Guenther and Evans are based upon actions allegedly taken by them in their individual capacities, a separate discussion

is necessary with respect to those defendants. Therefore, the Court will first discuss Individual Defendants' Motion to Dismiss Plaintiff's First Amended and Supplemental Complaint.

A. Individual Defendants' Motion to Dismiss Pursuant to Fed.R.Civ.P 8

Plaintiff has brought the claims of patent infringement, conversion, misappropriation of business opportunities, violation of civil rights under § 1983, and constructive fraud against the Individual Duke Defendants. The Individual Defendants have moved to dismiss Plaintiff's claims pursuant to Rules 8, 9(b) and 12(b)(6) of the Federal Rules of Civil Procedure.

Rule 8(a)(2) requires that a pleading contain "(2) a short and plain statement of the claim showing that the pleader is entitled to relief. . . ." A leading case on federal pleading requirements under Rule 8 is *Conley v. Gibson*, 355 U.S. 41, 78 S.Ct. 99 (1957). In *Conley*, the Supreme Court held that Rule 8 simply requires "notice pleading," and "do[es] not require a claimant to set out in detail the facts upon which he bases his claim." *Id.*, 355 U.S. at 47, 78 S.Ct. at 102. Instead, the Court stated that Rule 8 requires " 'a short and plain statement of the claim' that will give the defendant fair notice of what the plaintiff's claim is and the grounds upon which it rests." *Id.* According to the Court, this approach is a rejection of the notion that "pleading is a game of skill in which one misstep by counsel may be decisive to the outcome and [an acceptance of] the principle that the purpose of pleading is to facilitate a proper decision on the merits." *Id.*, 355 U.S. at 48, 78 S.Ct. at 103.

Appendix C

Although the Supreme Court's liberal approach to Rule 8 review gives plaintiffs wide latitude in constructing pleadings, the case law of several of the circuits that have interpreted *Conley* suggests that the case should not be construed to eliminate the requirement that a plaintiff state some facts upon which a claim is based. The Sixth Circuit, focusing on the *Conley* Court's statement that a defendant should be informed of the "grounds upon which [a claim] rests," reasoned that the language in *Conley* implicitly suggests that the Federal Rules " 'do contemplate a statement of circumstances, occurrences, and events in support of the claim being presented.' " *McGregor v. Industrial Excess Landfill, Inc.*, 856 F.2d 39, 42 (6th Cir. 1988) (per curiam) (quoting 5 Wright & Miller, Federal Practice and Procedure § 1215 (1969)). The First Circuit, acknowledging the Supreme Court's purpose in establishing a liberal approach to Rule 8, nevertheless stated that "[c]ompeting concerns . . . speak in favor of requiring at least some level of 'particularity' or 'specificity.' " *Boston & Maine Corp. v. Town of Hampton*, 987 F.2d 855, 865 (1st Cir. 1993). As one of the court's nonexclusive list of concerns, it noted: ". . . a complaint that is too general will not 'give the defendant fair notice of what the plaintiff's claim is and the grounds upon which it rests.' " *Id.* at 865. Echoing the Sixth Circuit's sentiment, the Seventh Circuit, in *Kyle v. Morton High School*, 144 F.3d 448 (7th Cir. 1998), reviewed a series of cases where that circuit dismissed pleadings because they did not adequately notify the defendants of the operative facts underlying the claims brought. *See, e.g., Panaras v. Liquid Carbonic Industries Corp.*, 74 F.3d 786, 792 (7th Cir. 1996) ("While federal notice-pleading allows for a generous reading of a complaint, in order to resist a motion to dismiss, the complaint must at

least set out facts sufficient to 'outline or adumbrate' the basis of the claim."); *McTigue v. City of Chicago*, 60 F.3d 381, 382 (7th Cir. 1995) ("The complaint, however, is deficient because it fails to include a factual basis to describe with particularity the bias that the plaintiff alleges. Although Fed. R. Civ. P. 8 does not require detailed factual pleading, a plaintiff's assertions must still direct the defendant to the factual cause of the plaintiff's alleged injury."); *Perkins v. Silverstein*, 939 F.2d 463, 467 (7th Cir. 1991) ("While plaintiffs make clear in their original complaint what their claims are, they fail to identify the grounds upon which their claims are based. This they must do, even under the liberal notice pleading of Rule 8(a)." (footnote and citation omitted.))

In the present case, Plaintiff has failed to present any set of facts that would adequately notify the Individual Defendants of the basis of the claims against them. As the Individual Defendants note in their motion to dismiss, Plaintiff barely mentions them by name, and never ascribes to them any behavior that corresponds to the claims alleged. (Ind. Def.'s Mot. Dis. First Amend. Supp. Comp. at 6.) For example, Plaintiff alleges that Defendants Mueller and Evans "developed a plan to take control of the [medical FEL] project and remove Dr. Madey from his position of authority in order to facilitate their nuclear research plans." (First Amend. Supp. Comp. at ¶ 33.) He also accuses them of signing construction plans for the FEL Lab on behalf of Duke. (*Id.* at ¶ 38.) Defendant Chafe is only mentioned by name for the purposes of showing that the Court has jurisdiction over him. (*Id.* at ¶ 3.) Plaintiff's allegations against Defendants Strohbehn and Putman are that they "ratified, condoned and affirmed" academic misconduct. (*Id.* at ¶ 134(d).) Plaintiff does not

attribute any action to Defendant Guenther, except to simply state that he was hired by Duke as an interim director of the FEL Lab. (*Id.* at ¶ 34.) However, these allegations fail to notify the Individual Defendants of the actions or circumstances behind Plaintiff's claims, and leave the Defendants unable to prepare an adequate defense to said claims. Thus, Plaintiff's complaint fails to meet even the liberal notice requirement of Rule 8 of the Federal Rules of Civil Procedure, and the Court finds it appropriate to dismiss Plaintiff's claim as to the Individual Defendants on that basis. Given the Court's finding on the issue of insufficient notification under Rule 8, it is unnecessary for the Court to consider Defendants' contention that Plaintiff's claims should be dismissed pursuant to Rule 12(b)(6) for failure to state a claim. Accordingly, for the remainder of this Memorandum Opinion, the Court will discuss Plaintiff's claims only against Defendant Duke University.

B. Count I: Patent Infringement[2]

Defendant Duke University has moved to dismiss Plaintiff's claim for infringement of the '103 patent for lack of subject matter jurisdiction pursuant to Rule 12(b)(1) and Rule 12(b)(6) of the Federal Rules of Civil Procedure. The Court will consider these motions in turn.

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2. Plaintiff alleges infringement of two patents: the '103 patent and the '994 patent. Though both claims of patent infringement are brought against Duke University and the Individual Defendants, Duke University only moves to dismiss the claim for infringement of the '103 patent, not the '994 patent.

Appendix C

1. Dismissal Pursuant to Federal Rules of Civil Procedure 12(b)(1).

For the purposes of considering whether this Court has jurisdiction to consider Plaintiff's claim of infringement of the '103 patent, it is necessary to separate the allegations of unauthorized use made by Plaintiff against Defendant into two categories: use in furtherance of the ONR grant, and use that exceeds the authorized scope of the ONR grant. Title 28 U.S.C. § 1498(a) provides in part:

> (a) Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture. . . . For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation *for the Government and with the authorization or consent of the Government*, shall be construed as use or manufacture for the United States.

28 U.S.C. § 1498(a) (emphasis added).

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Title 28 U.S.C. § 1338(a) states:

> (a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

28 U.S.C. § 1338(a).

Thus, it is clear that if Plaintiff's claim of infringement only concerned Defendant's use of the '103 patent for the government, jurisdiction would be proper only before the Court of Claims as provided by § 1498(a). It is also clear that if Plaintiff's claim only concerned Defendant's use of the '103 patent outside the scope of the government grant (i.e. for purely private purposes), jurisdiction would be proper before any district court pursuant to § 1338(a). In the present case, however, the issue is whether the Court of Claims should have jurisdiction where Defendant alleges that both types of unauthorized use took place.

The Fourth Circuit has set out the standard of review for motions to dismiss pursuant to 12(b)(1). In *Richmond, Fredericksburg & Potomac R. Co. V. United States*, 945 F.2d 765, 768 (4th Cir. 1991), *cert denied*, 503 U.S. 984, 112 S.Ct. 1667, 118 L.Ed.2d 388 (1992), the court held that "when a Rule 12(b)(1) motion challenge is raised to the factual basis for subject matter jurisdiction, the burden of proving subject matter jurisdiction is on the plaintiff." *Richmond*, 945 F.2d

at 768. (citing *Adams v. Bain*, 697 F.2d 1213, 1219 (4th Cir. 1982)). The court relied on *Trentacosta v. Frontier Pacific Aircraft Indus.*, 813 F.2d 1553, 1558 (9th Cir. 1987), where the Ninth Circuit ruled that in determining whether jurisdiction exists, the district court is to regard allegations in the pleadings as mere evidence on the issue, and may consider evidence outside the pleadings without converting the proceeding to one for summary judgment. *Trentacosta*, 813 F.2d at 1558 (9th Cir. 1987). The district court should apply the standard applicable to a motion for summary judgment, under which the nonmoving party must set forth specific facts beyond the pleadings to show that a genuine issue of material fact exists. *Trentacosta*, 813 F.2d at 1559 (citing *Celotex Corp. v. Catrett*, 477 U.S. 317, 323-24, 106 S.Ct. 2548, 2552-53, 91 L.Ed.2d 265 (1986)). The moving party should prevail only if the material jurisdictional facts are not in dispute and the moving party is entitled to prevail as a matter of law. *Trentacosta*, 813 F.2d at 1558.

In Defendant's Reply Memorandum in Support of Duke University's Motion To Dismiss Counts One, Three, Four, Five, Six and Seven of Plaintiff's First Amended and Supplemental Complaint, Defendant contends that because at least a portion of Plaintiff's infringement claim is within the exclusive jurisdiction of the Court of Claims, this Court should dismiss the entire claim, including those allegations that Defendant infringed upon the patent for its own private uses. (Def.'s Reply Mem. Supp. Mot. Dis. at 1-2). Defendant cites *Temco-Vought, Inc. v. Kollsman Instrument Co.*, 372 F.2d 263, 269-70 (2d Cir. 1967), where the Second Circuit ruled that a district court's dismissal of a patent infringement claim was proper because, in addition to unauthorized uses

by the defendant government contractor for its own private purposes, there were unauthorized uses by the defendant for the government. The district court's ruling turned on the court's application of the *de minimis* doctrine. In applying the *de minimis* doctrine, the court decided that because the defendant's use of the patent for its own private purposes was very limited— consisting of advertising that did not produce sales and unsuccessful experimentation— such private use could not remove jurisdiction under § 1498 from the Court of Claims. The appellate court affirmed the district court's application of the *de minimis* doctrine as a means of dismissing the claim. *Temco-Vought, Inc.*, 372 F.2d at 269-70. Thus, where a private defendant infringes a patent both in service of the government and for its own private purposes, but the infringement for private purposes is unsuccessful or sufficiently limited, the district court may properly dismiss the entire action on jurisdictional grounds. However, on the facts before this Court, the extent of Defendant's use of the '103 patent for private purposes is unclear. Defendant claims that any unauthorized uses of the '103 patent "were not for commercial gain and were at best *de minimis*." (Def.'s Reply Mem. Supp. Mot. Dis. at 2). Plaintiff, however, alleges that since June 1997, Duke has used the '103 patent "for [its] own purposes and benefit." (First Amend. Supp. Comp. at 20, ¶ 74.) The exact nature and extent of Defendant's unauthorized use of the '103 patent is a factual question that will require determination through discovery. Since the material facts underlying the jurisdictional issue are in dispute as to the alleged nongovernmental uses of Plaintiff's patent, the Court will deny Defendant's motion to dismiss with respect to those uses. With respect to Defendant's uses of the patent under the authority of the

government research grant, the Court will grant Defendant's motion to dismiss Plaintiff's claim for patent infringement without prejudice. Therefore, consistent with this ruling, the Court will consider Defendant's motion to dismiss pursuant to Rule 12(b)(6) only as it relates to alleged uses of the patent for Defendant's own private purposes.

2. Dismissal Pursuant to Federal Rules of Civil Procedure 12 (b) (6).

With respect to a motion to dismiss for failure to state a claim upon which relief can be granted, dismissals are allowed only in very limited circumstances. *Rogers v. Jefferson-Pilot Life Ins. Co.*, 883 F.2d 324, 325 (4th Cir. 1989). Generally, a court should not dismiss a complaint for failure to state a claim "unless it appears certain that the plaintiff can prove no set of facts which would support its claim and would entitle it to relief." *Mylan Lab., Inc. v. Matkari*, 7 F.3d 1130, 1134 (4th Cir. 1993), *cert. denied*, 510 U.S. 1197, 127 L. Ed. 2d 658 (1994). In making this determination, a court must view the complaint in the light most favorable to the plaintiff, accepting as true all well-pleaded factual allegations. *Randall v. United States*, 30 F.3d 518, 522 (4th Cir. 1994), *cert. denied*, 514 U.S. 1107, 131 L. Ed. 2d 849 (1995).

Defendant argues that the government's retained rights in the patent gave the government the right to authorize each of Defendant's uses of the patent. (Def.'s Mot. Dis. First Amend. Supp. Comp. at 8.) As stated earlier, the Court now reviews Defendant's 12(b)(6) motion only as it applies to Plaintiff's allegation that Defendant used the patent for

nongovernmental purposes. The fact that the government retains rights in the patented invention is not dispositive of this issue. Even with the government's retained rights, the question remains whether the government's retained rights amount to ownership such that the government could authorize Defendant's use of Plaintiff's patent for private purposes. At this point, Plaintiff has alleged that he is the sole owner of the patent and that he did not authorize its use by Defendant for Defendant's private purposes. These allegations are sufficient to state a claim of infringement and to withstand a motion to dismiss. Thus, Defendant's 12(b)(6) motion to dismiss is denied as to the infringement claim.

C. Count III: Conversion and Misappropriation of Business Opportunities

Plaintiff alleges that Defendant's continued exercise of exclusive control over the Mark III and other patented equipment constitutes conversion and misappropriation of Plaintiff's business opportunities. Defendant has moved to dismiss both allegations for failure to state a claim pursuant to 12(b)(6).

1. Conversion

As with Defendant's motion to dismiss Plaintiff's infringement claim, Defendant moves to dismiss Plaintiff's conversion claim on the basis of the authority it has received to use the patent based upon the government's retained right of use in the patent. Under North Carolina law, conversion is defined as "an unauthorized assumption and exercise of the right of ownership over goods or personal chattels

belonging to another, to the alteration of their condition or the exclusion of an owner's rights." *Peed v. Burleson's, Inc.*, 244 N.C. 437, 439; 94 S.E.2d 351, 353 (1956) (quoting 89 C.J.S. Trover & Conversion § 1.) However, as this Court has noted, "this definition clearly does not provide an independent standard for determining whether conversion occurred, for what constitutes an 'unauthorized' interference with another's ownership of goods or chattels depends upon the circumstances under which such interference arose." *Binkley v. Loughran*, 714 F.Supp. 776, 779 (M.D.N.C. 1989). In the present case, Plaintiff claims that in spite of the government's retained rights, he is the sole owner of the patented equipment in the FEL Lab, and therefore he possesses sole authority to allow the use of his patented equipment. Plaintiff argues further that even if he and the United States were joint owners of the equipment in question, the United States could not properly grant exclusive possessory rights to Defendant. Such an assignment would be in excess of the government's interest in the patent and would constitute conversion. *See Myers v. Myers*, 68 N.C. App. 177, 314 S.E.2d 809 (1984) (where a husband's use of more than his interest in a joint bank account held with his wife without accounting to his wife amounted to conversion). Additionally, the acceptance by Defendant of any rights of use that exclude Plaintiff from his ownership rights constitute conversion. *Wall v. Colvard, Inc.*, 268 N.C. 43, 48; 149 S.E.2d 559, 563 (1966) (ruling that a junior mortgagee holding mortgaged property to the exclusion of a senior mortgagee committed conversion since the junior mortgagee's action constituted a claim of title inconsistent with its true entitlement). In this case Plaintiff has alleged that Defendant "seized control of the [Free Electron Laser] Lab and the

equipment . . . and [has] excluded [Plaintiff] from all management or control of the Lab, its equipment and operations." (First Amend. Supp. Comp. at 20, ¶ 73.) The Court finds that such allegations sufficiently raise the issue of whether there has been an unauthorized exclusion of Plaintiff's rights. Plaintiff's allegations properly state a claim for conversion. Therefore, Defendant's motion to dismiss Plaintiff's conversion claim pursuant to 12(b)(6) is denied.

2. Misappropriation of Business Opportunities

Plaintiff alleges that Defendant's actions constitute a misappropriation of Plaintiff's business opportunities. Defendant argues that Plaintiff fails to state a claim for misappropriation of business opportunities on the theory that there was no fiduciary relationship between Defendant and Plaintiff that could be violated, and therefore no misappropriation. Defendant is correct in stating that a claim of misappropriation of business opportunities would require a fiduciary relationship. *See Meiselman v. Meiselman*, 309 N.C. 279, 307, 307 S.E.2d 551, 567 (1983) (ruling that a plaintiff, in order to prevail on a claim of misappropriation of corporate opportunity, must prove that a defendant breached a fiduciary duty.) Under North Carolina law, a fiduciary relationship may exist under a "variety of circumstances," and exists "in all cases where there has been a special confidence reposed in one who in equity and good conscience is bound to act in good faith and with due regard to the interests of the one reposing confidence." *Hajmm v. House of Raeford Farms*, 328 N.C. 578, 588, 403 S.E.2d 483, 489 (1991). While North Carolina courts define certain relationships, such as that between business partners,

as fiduciary relationships as a matter of law, in most situations "the question of whether a fiduciary relationship exists is more open and depends ultimately on the circumstances." *Terry v. Terry*, 302 N.C. 77, 84, 273 S.E.2d 674, 677 (1981). Defendant contends that there can be no fiduciary relationship between a professor and the university employing the professor. Defendant relies on *Speck v. North Carolina Dairy Foundation, Inc.*, 311 N.C. 679, 319 S.E.2d 139 (1984), where defendant North Carolina State University refused to share profits from a secret process with the plaintiffs, a professor and faculty assistant who developed the process. The plaintiffs in *Speck* argued that they shared a fiduciary relationship with the university that required that any profits derived from plaintiffs' invention be shared. According to the plaintiffs, the violation of this fiduciary relationship entitled plaintiffs to a constructive trust on the proceeds from the invention. In reviewing the case, the Supreme Court of the State of North Carolina stated that the underlying issue controlling the result in the case was whether the plaintiffs, being employed by the university, acquired any interest in the invention at the time they discovered it. *See id.* at 680, 319 S.E.2d at 140. The Court reasoned: "If the plaintiffs never had any interest in the process which they developed while employed by the University, the defendant did not stand in a fiduciary relationship to the plaintiffs with regard to the process." *Id.* In deciding whether plaintiffs possessed an interest in the invention sufficient to create a fiduciary relationship, the *Speck* court found several factors important. First, plaintiffs had been employed by the university to engage in precisely the type of research that led to the invention. Second, at all times pertinent, the plaintiffs' salaries were paid by the university. Finally, plaintiffs used the university's

facilities and resources to develop the invention. The Court stated that: "Under these facts, the secret process developed through the research of the plaintiffs belonged to the University absent a written contract by the University to assign." *Id.* at 686, 319 S.E.2d at 143. Because the plaintiffs never possessed any interest in the invention, the Court ruled that no fiduciary duty was owed by the university. "Indeed," added the Court, "any fiduciary duty owed with regard to the secret process was owed by the university professor and his assistant to the university in its capacity as the employer that employed them to develop the process." *Id.*, at 687, 319 S.E.2d at 144. In support of its finding that no fiduciary duty was owed by the university on the specific facts of *Speck*, the Court alluded to a policy consideration articulated by the Massachusetts Supreme Judicial Court. *Id.*, at 685, 319 S.E.2d at 143. In *National Development Co. v. Gray*, 55 N.E.2d 783, 787 (1944), the Massachusetts court reasoned that since an employer bears the loss when an employed researcher fails to produce an invention, the employer should own any invention produced when the researcher succeeds. Thus, since the employer bears the risk of loss with respect to an employee's research activities, the employer, not the employee, possesses the interest in the employee's invention. *Speck*, 311 N.C. at 685, 319 S.E.2d at 143.

Defendant Duke University would have this Court interpret *Speck* as establishing a general principle that no fiduciary relationship can exist between university professors and the universities that employ them. However, such an interpretation of *Speck* would be overbroad. Although no fiduciary duty arose from the facts in *Speck*, it is not settled that a fiduciary duty cannot exist between universities and

professors. In fact, the factors upon which the North Carolina Supreme Court based its decision in *Speck*, along with the policy consideration adopted by the court from the Massachusetts court in *National Development Co.*, suggest that a fiduciary relationship could exist between Plaintiff and Defendant in the present case. In *Speck*, the plaintiffs had been hired and provided with resources in order that they might pursue research that would lead to the patented invention that the plaintiffs subsequently produced. In contrast, it is undisputed by the parties in this case that the Mark III and related equipment were developed and patented by Plaintiff before he came to Duke University. Furthermore, Plaintiff's salary was not paid by Defendant during the time he developed the patented equipment at issue since he was employed by Stanford University at that time. Therefore, Plaintiff did not use any of Defendant's resources in developing the patent or equipment at issue. To the extent the *Speck* court reasoned that the plaintiffs in *Speck* could not establish a fiduciary relationship based on the principle that an employee-inventor lacks an interest in any discovery made on his employer's time and resources, it could be similarly reasoned that since Plaintiff developed his patented invention prior to his employment with Duke and completely without the University's resources, Plaintiff possesses an interest in the invention. If Plaintiff can establish that he possesses an interest in the invention, then he can appropriately allege that the University owes him a fiduciary duty at least with respect to that invention.

An application of the policy consideration articulated by the Massachusetts court in *National Development Co.* and adopted by the North Carolina Supreme Court in *Speck*

supports the conclusion that Plaintiff can establish that he has an interest in the invention. This is especially true where, as in the present case, Defendant never bore the risk of loss with respect to the successful development of Plaintiff's patented equipment because the equipment was developed prior to Plaintiff's arrival at Duke. To the contrary, since Defendant did not fund the research and development that produced the invention, Defendant stood only to gain from Plaintiff's use of his patented equipment to secure federal research grants for the University. On the other hand, Plaintiff, by trusting Defendant with his patented equipment, was taking a risk that his equipment would not be utilized properly in furtherance of the research he intended to pursue at the University. These factors constitute that sort of relationship termed fiduciary by the Supreme Court in *Hajmm*: one in which a special confidence is reposed in a party who in equity and good conscience is bound to act in good faith and with due regard to the interest of the party reposing confidence. *Hajmm*, 328 N.C. at 588; 403 S.E.2d at 489. Therefore, the Court finds that Plaintiff has appropriately alleged the existence of a fiduciary relationship. On this basis, the Court also finds that Plaintiff has sufficiently alleged that Defendant violated this fiduciary duty by usurping his research and patented equipment. Accordingly, Plaintiff has adequately stated a claim for misappropriation of business opportunities, and Defendant's 12(b)(6) motion to dismiss Plaintiff's claim is denied.

Appendix C

D. Count IV: Age Discrimination

Plaintiff's Complaint also includes a claim for age discrimination in violation of the Age Discrimination in Employment Act of 1967, 29 U.S.C. §§ 621 *et seq.* (the "ADEA"). Defendant has moved for dismissal of Plaintiff's ADEA claim pursuant to Fed. R. Civ. P. 12(b)(6). The ADEA provides that "[i]t shall be unlawful for an employer . . . to fail or refuse to hire or to discharge an individual or otherwise discriminate against any individual with respect to his compensation, terms, conditions, or privileges of employment, because of such individual's age." 29 U.S.C. § 623(a)(1). The age-based protections of the ADEA are "limited to individuals who are at least 40 years of age." 29 U.S.C. § 631.

The Fourth Circuit has outlined two methods by which a plaintiff may establish a case for age discrimination: (1) by alleging facts which suggest either direct or indirect evidence of a stated purpose to discriminate, or (2) by meeting the factors established in *McDonnell Douglas Corp. v. Green*, 411 U.S. 792, 36 L. Ed. 2d 668 (1973). *See E.E.O.C. v. Clay Printing Co.*, 955 F.2d 936, 940 (4th Cir. 1992) (stating that a plaintiff can establish a claim under the ADEA either with direct or indirect evidence of a stated purpose to discriminate or by resorting to the *McDonnell Douglas* scheme). Under the first method of establishing an ADEA claim, the essential elements which must be alleged are (1) that an employee covered by the Act (2) has suffered an unfavorable employment action by an employer covered by the Act (3) under circumstances in which the employee's age was a determining factor in the action in the sense that "but for"

his employer's motive to discriminate against him because of his age, he would not have suffered the unfavorable employment action. *Lovelace v. Sherwin-Williams Co.*, 681 F.2d 230, 238 (4th Cir. 1982).

Under the *McDonnell Douglas* framework, Plaintiff must establish that: (1) he is a member of a protected class, (2) he suffered an adverse employment action, (3) at the time of the adverse employment action, he was performing at a satisfactory level, meeting his employer's legitimate expectations, and (4) plaintiff was replaced by someone substantially younger than the plaintiff.[3] The fourth element

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3. The fourth element of the *McDonnell Douglas* framework has been changed by virtue of the Supreme Court's decision in *O'Connor v. Consolidated Coin Caterers Corp.*, 517 U.S. 308, 116 S.Ct. 1307, 134 L.Ed.2d 433 (1996). The Court held that the requirement that a plaintiff allege that someone below age forty replaced him in order to establish a prima facie claim for age discrimination under the ADEA was not logical. The Court wrote:

> As the very name "prima facie case" suggests, there must be at least a logical connection between each element of the prima facie case and the illegal discrimination for which it establishes a "legally mandatory, rebuttable presumption." The element of replacement by someone under 40 fails this requirement. The discrimination prohibited by the ADEA is discrimination "because of [an] individual's age," 29 U.S.C. § 623(a)(1), though the prohibition is "limited to individuals who are at least 40 years of age," § 631(a). This language does not ban discrimination against employees because they are aged 40 or older; it bans discrimination against employees because of their age, but limits the protected class to

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can be satisfied either by showing that persons outside the protected class were retained in the same position or by producing some other evidence indicating that the employer did not treat age neutrally. *E.E.O.C. v. Western Electric*, 713 F.2d 1011, 1014-15 (1983). Thus, as to the *McDonnell Douglas* scheme, Plaintiff can satisfy the standard by showing that Defendant treated him differently than younger employees in similar positions.

With respect to Plaintiff's ADEA claim, there are two issues in dispute between the parties. The first is whether Plaintiff was required to allege that he was replaced by someone substantially younger than himself. The second is whether Plaintiff's pleading properly alleges that he suffered an adverse employment action as required under both methods of establishing an ADEA claim. As stated earlier, the Fourth Circuit has held that a plaintiff may establish a claim for age discrimination in one of two ways: with direct or indirect evidence of a stated purpose to discriminate, or through the *McDonnell Douglas* method. However, Plaintiff has worded his ADEA claim in such a way that the Court is left uncertain regarding which method Plaintiff intended to employ. Specifically, Plaintiff's ADEA claim is expressed in one sentence which states: "Dr. Madey's age and his status as a senior faculty member and research

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(Cont'd)

> those who are 40 or older. . . . [T]he fact that a replacement is substantially younger than the plaintiff is a far more reliable indicator of age discrimination than is the fact that the plaintiff was replaced by someone outside the protected class. *O'Connor*, 517 U.S. at 312, 116 S.Ct. at 1310.

scientist were determining factors of the discriminatory action taken by Duke as alleged in paragraphs 29 - 63 above, and are in violation of the Age Discrimination in Employment Act of 1967 ('A.D.E.A.') 29 U.S.C. §§ 621-634." (Plain. First Amend. Supp. Comp. at ¶ 107.) Since it is unclear from Plaintiff's complaint which of the two pleading methods he intended to employ, the Court will evaluate Plaintiff's ADEA claim under the requirements of both methods.

With respect to the method of establishing an ADEA claim through direct or indirect evidence of a stated purpose to discriminate, it is undisputed by the parties in this case that Defendant (the employer) and Plaintiff (the employee) are covered by the act. Therefore, the issue before this Court is whether Plaintiff has properly alleged under the direct evidence method of proof that his age was a determining factor in Defendant's removal of Plaintiff from his position as Director of the FEL Lab in the sense that "but for" Defendant's motive to discriminate against Plaintiff because of his age Plaintiff would not have been removed from his position. *Clay Printing Co.*, 955 F.2d 936, 940-41 (4th Cir. 1992); *Lovelace v. Sherwin-Williams Co.*, 681 F.2d 230, 238 (4th Cir. 1982). Although it is true that stating a discrimination claim so as to avoid dismissal under 12(b)(6) only requires notice pleading, a plaintiff's complaint must allege some facts upon which the discrimination claim is based. *Dugan v. Martin Marietta Aerospace*, 760 F.2d 397, 399 (2d Cir. 1985) (citing *Albany Welfare Rights Organization Day Care Center, Inc. v. Schreck*, 463 F.2d 620, 622-623 (2d Cir. 1972), *cert. denied*, 410 U.S. 944, 93 S.Ct. 1393 (1973) (ruling that a complaint was properly dismissed in a civil rights case where plaintiff made only conclusory

allegations)). The complaint reviewed by the Second Circuit in *Dugan* contained no factual allegations, apart from the plaintiff's age, that supported his assertion of age discrimination. In affirming the district court's dismissal of the complaint pursuant to 12 (b)(6), the court stated: "While a claim made under the ADEA need not contain every supporting detail, it must at least inform the court and the defendant generally of the reasons the plaintiff believes age discrimination has been practiced." *Dugan*, 760 F.2d at 399. In the present case, Plaintiff's allegation of age discrimination states Plaintiff's age, but does not offer any additional facts or direct evidence that would give the Court or Defendant any reason why Plaintiff believes that Defendant's actions in removing Plaintiff from his position as Director of the FEL Lab were motivated by age discrimination. Thus, Plaintiff fails to state a claim of age discrimination as required by the method for stating an ADEA claim with direct evidence.

Plaintiff's failure to state some factual basis in alleging age discrimination in violation of the ADEA also proves fatal to his claim when the claim is reviewed under the *McDonnell Douglas* framework. In order to satisfy the requirements of the *McDonnell Douglas* method of establishing an ADEA claim, Plaintiff would have to allege that he was performing at a satisfactory level that met his employer's expectations and that he was replaced by a substantially younger person. Plaintiff fails to allege facts that would satisfy either of these requirements. As to the issue of Plaintiff's job performance, Plaintiff makes no statement to indicate that he was performing at a satisfactory level that met his employer's expectations. Regarding his replacement by another person,

Plaintiff makes three statements. First, he states that former Chairman of the Department of Physics Lawrence Evans recruited "an untenured, faculty member, Bobby Guenther," to accept the position of Director of the FEL Lab. (Plain. First Amend. Supp. Comp. at ¶ 34.) Second, he states that an "adjunct, untenured faculty member of the Physics Department who agreed with and championed the changed plans for the FEL Lab" was selected as a "second director." (*Id.* at ¶ 43.) Third, he states that Department Chair Berndt Mueller was appointed to replace Plaintiff as Principal Investigator of the ONR Grant. (*Id.* at ¶ 56.) However, Plaintiff never states that Guenther or Mueller are younger than he is. Consequently, Plaintiff's complaint also fails to provide sufficient allegations to comply with the *McDonnell Douglas* method of alleging a claim of age discrimination under the ADEA. Since Plaintiff has failed to properly state a claim under either method available to him to establish age discrimination, Defendant's motion to dismiss Plaintiff's age discrimination claim pursuant to 12(b)(6) is granted.

E. Count V: Civil Rights Violations under 42 U.S.C. § 1983

Plaintiff alleges that in response to his accusations that the Duke University administration was improperly diverting federal research funds and creating health and safety hazards through misuse of the technology of the FEL Lab, Defendant removed him from his position as principal investigator of the ONR grant and eliminated his access to the lab. Plaintiff claims that these actions subjected him to a deprivation of his First Amendment rights in violation of 42 U.S.C. § 1983. Defendant's 12(b)(6) motion to dismiss addresses Plaintiff's § 1983 claim as well.

Appendix C

Title 42 U.S.C. § 1983 provides in part:

> Every person who, under color of any statute, ordinance, regulation, custom, or usage, *of any State or Territory or the District of Columbia*, subjects, or causes to be subjected, any citizen of the United States or other person within the jurisdiction thereof to the deprivation of any rights, privileges, or immunities secured by the Constitution and laws, shall be liable to the party injured in an action at law, suit in equity, or other proper proceeding for redress. . . .

42 U.S.C. § 1983.

In *Lugar v. Edmondson Oil Co.*, 457 U.S. 922, 937, 102 S.Ct. 2744, 2753 (1982), the Supreme Court of the United States held that an action pursuant to § 1983 must involve the deprivation of a federal right and must be "fairly attributable to the State." *Lugar*, 457 U.S. 922, 937, 102 S.Ct. 2744, 2753. Fair attribution to the state is a two-step process. The Court stated:

> First, the deprivation must be caused by the exercise of some right or privilege created by the State or by a rule of conduct imposed by the state or by a person for whom the State is responsible. . . . Second, the party charged with the deprivation must be a person who may fairly be said to be a state actor. This may be because he is a state official, because he has acted together

> with or has obtained significant aid from state officials, or because his conduct is otherwise chargeable to the State.

Lugar, 457 U.S. 922, 937, 102 S.Ct. 2744, 2753.

In support of its 12(b)(6) motion to dismiss, Defendant argues that Plaintiff's claim does not allege state action that covers Defendant's action in this case. Specifically, Defendant contends that, contrary to Plaintiff's argument, any funds that flow to Duke University from the lab's research grants do not implicate § 1983. (Def.'s Mot. Dis. First Amend. Supp. Comp. at 14-15.) First, the funds come from the federal government rather than the state government, and § 1983 clearly applies to actions pursuant to state law, not federal law. *Kotmair v. Gray*, 505 F.2d 744, 746 (4th Cir. 1974) (ruling that internal revenue agents who, pursuant to federal statute, caused levy to be placed on taxpayer's bank account to collect penalty for late payment of federal employment taxes were not acting "under color of state law" and thus were not subject to suit for deprivation of civil rights). Second, even if the research funds had come from state sources, such state funding would not be sufficient to establish state action. In *Rendell-Baker v. Kohn*, 457 U.S. 830, 92 S.Ct. 1965 (1982), the Supreme Court held that a private school's receipt of public funds did not make its decision to discharge teachers an act of the State for the purposes of § 1983. The Court stated that "[t]he school, like the nursing homes, is not fundamentally different from many private corporations whose business depends primarily on contracts to build roads, bridges, dams, ships, or submarines for the government. Acts of such private contractors do not

become acts of the government by reason of their significant or even total engagement in performing public contracts." *Rendell-Baker v. Kohn*, 457 U.S. at 840-41, 92 S.Ct. at 1971. Plaintiff, however, relies on *Burton v. Wilmington Parking Authority*, 365 U.S. 715, 81 S.Ct. 856 (1961), where the Court stated:

> [T]o fashion and apply a precise formula for recognition of state responsibility under the Equal Protection Clause is an "impossible task" which "This [sic] Court has never attempted." *Kotch v. Board of River Port Pilot Com'rs*, 330 U.S. 552, 556, 67 S.Ct. 910, 912 (1947). Only by sifting facts and weighing circumstances can the nonobvious involvement of the State in private conduct be attributed its true significance.

Burton, 365 U.S. at 722, 81 S.Ct. at 860.

Though the Court acknowledges the need to examine the circumstances underlying a § 1983 claim for nonobvious state involvement, there must exist at least some facts which support a finding of the existence of state actors. Without such facts, the state action requirement of § 1983 cannot be satisfied. In the present case, Plaintiff presents no factual allegations that he was deprived of a legitimate federal right by state actors acting under color of state law. Accordingly, Defendant's 12(b)(6) motion to dismiss Plaintiff's § 1983 claim is granted.

Appendix C

F. Count VI: Constructive Fraud

(1) Failure to Plead With Particularity Required By Rule 9(b)

Plaintiff alleges that Defendant's actions in removing him from his position as Director of the FEL Lab and Principal Investigator of the ONR grant, as well as seizing exclusive control of the Mark III and related equipment constitute constructive fraud. Defendant first moves for dismissal of the constructive fraud claim on the grounds that Plaintiff fails to plead with the particularity required by Rule 9(b) of the Federal Rules of Civil Procedure. Defendant additionally contends that Plaintiff's allegations fail to state a claim for constructive fraud. Rule 9(b) states:

> (b) In all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity. Malice, intent, knowledge, and other condition of mind of a person may be averred generally.

Fed. R. Civ. P. 9(b).

With respect to general claims of fraud, this Court has interpreted Rule 9(b) to require a pleading of the "time, place, and contents of the alleged fraudulent misrepresentation, as well as the identity of each person making the misrepresentation and what was obtained thereby." *Breeden v. Richmond Community College*, 171 F.R.D. 189, 195 (M.D.N.C. 1997) (quoting *Riley v. Murdock*, 828 F.Supp. 1215, 1225 (E.D.N.C.1993)) (citations omitted). The purpose of Rule 9(b) is to give a defendant sufficient notice of the misconduct that forms the basis of the claim for fraud, thereby allowing the defendant ample

opportunity to prepare a defense. *Andrews v. Fitzgerald*, 823 F.Supp. 356, 373 (M.D.N.C. 1993). Although the Federal Rules of Civil Procedure determine the pleading requirements in federal civil suits, where a plaintiff brings a state claim, the federal rules cannot require the pleading of elements beyond those established by state law. To allow otherwise would result in an alteration of the substance of the state law at issue. In this instance, Rule 9(b) simply requires that Plaintiff plead the elements of constructive fraud established by North Carolina law.

In support of this principle, Plaintiff cites *Terry v. Terry*, 302 N.C. 77, 85, 273 S.E.2d 674, 678-79 (1981) for the proposition that a pleading of constructive fraud satisfies the particularity requirements of the pleading rules, such as Rule 9(b), in a manner different from other fraud claims. *Terry*, 302 N.C. 77, 85, 273 S.E.2d 674, 678-79. In *Terry*, the North Carolina Supreme Court stated:

> A constructive fraud claim requires even less particularity because it is based on a confidential relationship rather than a specific misrepresentation. The very nature of constructive fraud defies specific and concise allegations and the particularity requirement may be met by alleging facts and circumstances "(1) which created the relation of trust and confidence, and (2) [which] led up to and surrounded the consummation of the transaction in which defendant is alleged to have taken advantage of his position of trust to the hurt of plaintiff."

Terry, 302 N.C. 77, 85, 273 S.E.2d 674, 678-79 (quoting *Rhodes v. Jones*, 232 N.C. 547, 548-49, 61 S.E.2d 725 (1950)).

Thus, in order to comply with *Terry*, the Court finds that Plaintiff must allege the existence of facts and circumstances which created a relationship of trust between Plaintiff and Defendant, as well as facts and circumstances which allege the manner in which Defendant violated its fiduciary duty to Plaintiff. In alleging in detail how he was enticed to come to Duke University, Plaintiff has clearly stated the circumstances that created the relationship of trust between Plaintiff and Duke, particularly as that relationship of trust is set out in the terms of his Research Agreement with the University. (Plain. First Amend. Supp. Comp. at ¶¶ 11-16.) Additionally, Plaintiff has alleged in detail those events that led to his removal from his position as Director of the FEL Lab and Principal Investigator for the federal research grant.[4] (*Id.* at ¶¶ 29-63.) Therefore, this Court finds that in light of *Terry*, Plaintiff's claim of constructive fraud satisfies the particularity requirement of Rule 9(b).

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4. As explained *supra*, Plaintiff alleges that the Defendant revised the plans for construction of the FEL Lab facilities in order to pursue the research of other professors in the Physics Department. Plaintiff claims that when he objected to the changed plans, members of the University faculty conceived of a plan to remove Plaintiff from his position of authority. First, a second Director was appointed to run the lab along with Plaintiff, thereby creating a situation wherein Plaintiff's objections to changes within the Lab could be neutralized by the second Director. (Plain. First Amend. Supp. Comp. at ¶ 43.) Second, Plaintiff claims that Defendant University created an advisory committee, composed of senior administrators committed to the changed plans advocated by Defendant. This committee would have the power to veto decisions made by Plaintiff. (*Id.* at ¶ 44.) Finally, Plaintiff alleged that after he objected to these changes in the management of the Lab, Defendant removed him from his position as Director of the Lab and petitioned the Office of Naval Research to remove Plaintiff from his position as Principal Investigator of the ONR Grant. (*Id.* at ¶ 52-26.)

Appendix C

2. Defendant's 12(b)(6) Motion to Dismiss the Constructive Fraud Claim

In the alternative, Defendant argues that Plaintiff's claim for constructive fraud should be dismissed for failure to state a claim under 12(b)(6). Defendant argues that under North Carolina law constructive fraud requires a fiduciary relationship. Defendant contends that Plaintiff has failed to establish the existence of a fiduciary relationship, and therefore fails to state a claim for constructive fraud. With respect to this argument, it bears repeating that the facts alleged by Plaintiff constitute the sort of relationship termed fiduciary by the North Carolina Supreme Court in *Hajmm* where a special confidence is reposed in the parties who in equity and good conscience are bound to act in good faith and with due regard to the interest of the other party. *Hajmm*, 328 N.C. at 588, 403 S.E.2d at 489. Thus, to the extent that Plaintiff has effectively alleged the existence of a fiduciary relationship based upon *Hajmm*, Defendant's 12(b)(6) motion to dismiss Plaintiff's constructive fraud claim is denied.

G. Count VII: Breach of Contract

Plaintiff has brought a breach of contract claim against Defendant based on three factors. First, Plaintiff claims that Defendant's actions in removing Plaintiff from his position as Director of the FEL Lab and Principal Investigator of the ONR Grant is a violation of Defendant's agreement with Plaintiff. (Plain. First Amend. Supp. Comp. at ¶ 130.) Second, Plaintiff claims that Defendant's actions in denying Plaintiff access to and control of the Mark III FEL equipment is a violation of the Agreement. (*Id.*) Third, Plaintiff claims

that the due process rights accorded to faculty members in decisions affecting their status and employment at Duke were incorporated into the Research Agreement, and Defendant's action in depriving Plaintiff of those rights constitutes a violation of the Agreement. (*Id.* at ¶ 131.)

Defendant moves for a 12(b)(6) dismissal of Plaintiff's claim for breach of contract on two bases. First, Defendant disagrees with Plaintiff regarding what terms are actually included in the Research Agreement. Although Defendant does not dispute that it removed Plaintiff from his position as Director of the FEL Lab and Principal Investigator of the ONR Grant, Defendant contends that there are no terms in the Research Agreement that these actions violate. For example, Defendant states that the Research Agreement does not include a term that gives Plaintiff due process rights with respect to decisions made by Defendant that affect Plaintiff's employment. (Def. Mot. Dis. Plain. First Amend. Supp. Comp. at 18.) As to what terms are actually included in the Research Agreement, it appears that the text of the Agreement has not been made a part of the record. However, the Court reiterates that in reviewing a 12(b) (6) motion, the Court is to accept as true all well-pleaded factual allegations. *Randall v. United States*, 30 F.3d 518, 522 (4th Cir. 1994), *cert. denied*, 514 U.S. 1107, 131 L.Ed. 2d 849 (1995). Accordingly, the Court accepts as true Plaintiff's allegation that the Research Agreement provided that Plaintiff would direct the activities of the FEL Lab. (Plain. First Amend. Supp. Comp. at ¶ 16(a-i.)) To the extent that Defendant removed Plaintiff from his position of authority in the FEL Lab and denied Plaintiff access to the Lab, Plaintiff has properly stated a claim such that dismissal of his breach of contract claim pursuant to 12(b)(6) is not warranted.

Second, Defendant argues that because the Research Agreement is an employment contract, Plaintiff's claim for breach of contract is flawed under North Carolina law. (*Id.* at 18.) Defendant supports this assertion by arguing that under North Carolina law an employment contract is terminable at will unless it includes a provision stating that it is a term agreement or some other agreement other than a contract terminable at will. In reviewing this argument, the Court notes that, unlike most litigation regarding contracts that are terminable at will, the issue here is not whether Plaintiff's employment was terminable at will. In the present case, Plaintiff's employment was not terminated, but rather Plaintiff contends that the conditions of his employment were altered such that his status within the FEL Lab at Duke University was changed. Plaintiff claims that Defendant's actions in altering Plaintiff's employment status constitute a breach of the terms of the Research Agreement. Defendant's reasoning suggests that if the Research Agreement is an employment contract that is terminable at will, then all terms in the Research Agreement related to Plaintiff's employment are likewise terminable at will, and therefore not binding upon Defendant if Defendant chooses to terminate the contract. This reasoning is not consistent with this Court's interpretation of the nature of contracts of employment at will under North Carolina law.

Under North Carolina law, "where a contract of employment contains no provision as to duration, the contract is terminable at the option of the employer ('at will'), without regard to cause." *Fortsmann v. Culp*, 648 F.Supp. 1379, 1382 (M.D.N.C. 1986) (citing *Nantz v. Employment Securities Commission*, 290 N.C. 473, 226 S.E.2d 340 (1976); *Smith v.*

Ford Motor Co., 289 N.C. 71, 221 S.E.2d 282, 79 A.L.R.3d 651 (1976); *Malever v. Kay Jewelry Co.*, 223 N.C. 148, 25 S.E.2d 436 (1943)). Even where the parties enter into a contract for "permanent employment," the contract is an "indefinite general hiring" terminable at will in the absence of an additional expression as to duration. *Fortsmann*, 648 F.Supp. at 1382. (citing *Roberts v. Wake Forest University*, 55 N.C.App. 430, 286 S.E.2d 120, *review denied*, 305 N.C. 586, 292 S.E.2d 571 (1982.))[5] It is important to note,

5. The Court notes that the Research Agreement may not in this instance be viewed as an employment contract terminable at will, though this is not central to addressing Plaintiffs breach of contract claim. Where an employee is employed for a definite term or is subject to discharge only for "just cause," the employment contract is not terminable at will. *Wagoner v. Elkin CitySchools' Board of Education*, 113 N.C.App. 579, 440 S.E.2d 119, *disc. review denied*, 336 N.C. 615, 447 S.E.2d 414 (1994). In *Wagoner*, where the plaintiff had attained the status of "career teacher" under N.C.Cen.Stat. § 115C-325(c), a status which required that the school system follow prescribed procedures in order to terminate the plaintiff, the court found that the plaintiff was not an employee at will. Consequently, the proper claim for the plaintiff upon being discharged in a manner inconsistent with the due process requirements of § 115C-325(c) was a breach of contract claim. *Wagoner*, 113 N.C.App. at 588, 440 S.E.2d at 125. In the present case, Plaintiff alleges that the Research Agreement gave him status as a tenured professor at Duke University and incorporated the due process rights afforded to tenured faculty by the Duke University Faculty Handbook. The Handbook is not included as an exhibit in the pleadings of either party in this case, therefore, the Court is unable to review its terms. However, the incorporation of the document into the Research Agreement could mean that the University would be required to follow proscribed procedures in order to terminate Plaintiff, and would only be able to do so for those reasons outlined in the Handbook. In such a case, the Research Agreement would not be an employment contract terminable at will.

however, that although the employment-at-will doctrine allows employers to terminate an employee at will, the North Carolina courts have expressly stated that an employer may not disregard supplemental terms contained in an employment-at-will contract, such terms being themselves enforceable under contract law. *Walker v. Westinghouse Elec. Corp.*, 77 N.C.App. 253, 261, 335 S.E.2d 79, 84 (N.C.App. 1985); *Harris v. Duke Power Co.*, 83 N.C.App. 195, 197, 349 S.E.2d 394, 395 (N.C.App. 1986). As an illustration of this principle, the *Walker* court reviewed the decision of the North Carolina Supreme Court in *Roberts v. Mills*, 184 N.C. 406, 114 S.E. 530 (1922). In *Roberts*, an employer offered in January to pay a 10% bonus at Christmas of the same year to employees employed continuously during that year. The plaintiff was discharged in September without bonus pay. The plaintiff alleged that he had intended to quit his job in January but stayed on because of the bonus. The Court ruled that while the agreement did not alter the terminable-at-will nature of the employment contract, it did confer upon plaintiff an enforceable right to the bonus earned up to the time of discharge.

In the present case, Plaintiff alleges that the Research Agreement included a specific term which guaranteed that Plaintiff would control the activities of the FEL Lab and the equipment which Plaintiff brought to the University for use in the Lab. Plaintiff also alleges that the Research Agreement included a specific term which guaranteed Plaintiff due process rights with respect to any decision affecting his employment status. Under North Carolina law, even if the overall Research Agreement were an employment-at-will contract as Defendant alleges, the terms of employment

contained in the contract would still be enforceable by Plaintiff against Defendant provided those terms were themselves enforceable under contract law. *Walker*, 77 N.C.App. at 261, 335 S.E.2d at 84; *Harris*, 83 N.C.App. at 197, 349 S.E.2d at 395. Therefore, to the extent that such a defined employment relationship existed, based upon the specific terms of the Research Agreement, Plaintiff could appropriately assert that a breach of contract had occurred. Based upon the facts of this case, Defendant's motion to dismiss Plaintiff's breach of contract claim, specifically the Research Agreement, is denied to the extent the breach of contract claim is based upon the Research Agreement as represented to the Court.

VIII. CONCLUSION

For the foregoing reasons, the Individual Defendants' Motion to Dismiss Plaintiff's First Amended and Supplemental Complaint [Document #31], as alleged against them individually pursuant to Rule 8 of the Federal Rules of Civil Procedure, is GRANTED. The Court's ruling on Defendant Duke University's Motion to Dismiss Counts One, Three, Four, Five, Six and Seven of Plaintiff's First Amended and Supplemental Complaint [Document #30] is as follows:

Defendant Duke University's motion to dismiss Plaintiff's claim of infringement of the '103 patent (Count I) is GRANTED in part and DENIED in part. The motion is granted with respect to Plaintiff's infringement claims which are based upon allegations of patent use by Defendant Duke University pursuant to government research grants issued to the University. However, Defendant's motion is denied with

respect to Defendant's alleged use of the patent for private purposes outside the scope of the government's retained right in the patent.

Furthermore, for the reasons previously stated, Defendant Duke University's motion to dismiss Plaintiff's claims for conversion and misappropriation of business opportunities (Count III) is DENIED. Defendant Duke University's motion to dismiss Plaintiff's claim for age discrimination in violation of the ADEA (Count IV) is GRANTED. Defendant Duke University's motion to dismiss Plaintiff's claim for deprivation of First Amendment rights in violation of § 1983 (Count V) is GRANTED. Defendant Duke University's motion to dismiss Plaintiff's claim for constructive fraud (Count VI) is DENIED. Defendant Duke University's motion to dismiss Plaintiff's claim for breach of contract (Count VII) is DENIED. In light of these rulings, Plaintiff and Defendant Duke University are directed to proceed with the prosecution and defense of this matter with respect to Plaintiff's claims for patent infringement, conversion, misappropriation of business opportunities, and breach of contract.

An Order and Judgment in accordance with this Memorandum Opinion will be filed contemporaneously herewith.

This the 1st day of December, 1999.

s/ James A. Beaty
United States District Judge

Appendix C

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA

1:97CV1170

JOHN M. J. MADEY,

Plaintiff,

v.

DUKE UNIVERSITY, CHARLES E. PUTMAN, JOHN STROHBEHN, WILLIAM H. CHAFE, BERNDT MUELLER, BOBBY GUENTHER, and LAWRENCE EVANS

Defendants.

ORDER AND JUDGMENT

BEATY, District Judge.

This matter is before the Court on the separate motions of Defendant Duke University [Document #30] and Duke Individual Defendants [Document #31], in which both parties move to dismiss John M. J. Madey's First Amended and Supplemental Complaint [Document # 28] pursuant to Rules 8, 9(b), 12(b)(1), 12(b)(6) and 12(h)(3) of the Federal Rules of Civil Procedure.[1] Plaintiff's Complaint includes

1. The individual Defendants in this action are Charles E. Putman, John Strohbehn, William H. Chafe, Berndt Mueller, Bobby Guenther and Lawrence Evans.

claims for infringement of two patents (Counts I and II); conversion of property and misappropriation of business opportunities (Count III); violation of 29 U.S.C. §§ 621-634, the Age Discrimination in Employment Act ("the ADEA") (Count IV); violation of Plaintiff's civil rights as protected under 42 U.S.C. § 1983 (Count V); constructive fraud (Count VI); and breach of contract (Count VII). For the reasons enumerated in the MEMORANDUM OPINION filed contemporaneously herewith, based upon the Court's review of the motions and supporting memoranda of all parties, the Individual Defendants' Motion to Dismiss Plaintiffs First Amended and Supplemental Complaint [Document #31], as alleged against them individually pursuant to Rule 8 of the Federal Rules of Civil Procedure, is GRANTED. The Court's ruling on Defendant Duke University's Motion to Dismiss Counts One, Three, Four, Five, Six and Seven of Plaintiff's First Amended and Supplemental Complaint [Document #30] is as follows:

Defendant Duke University's motion to dismiss Plaintiff's claim of infringement of the '103 patent (Count I) is GRANTED in part and DENIED in part. The motion is granted with respect to Plaintiff's infringement claims which are based upon allegations of patent use by Defendant Duke University pursuant to government research grants issued to the University. However, Defendant's motion is denied with respect to Defendant's alleged use of the patent for private purposes outside the scope of the government's retained right in the patent.

Furthermore, for the reasons enumerated in the MEMORANDUM OPINION filed contemporaneously herewith, Defendant Duke University's motion to dismiss Plaintiff's

claims for conversion and misappropriation of business opportunities (Count III) is DENIED. Defendant Duke University's motion to dismiss Plaintiff's claim for age discrimination in violation of the ADEA (Count IV) is GRANTED. Defendant Duke University's motion to dismiss Plaintiff's claim for deprivation of First Amendment rights in violation of § 1983 (Count V) is GRANTED. Defendant Duke University's motion to dismiss Plaintiff's claim for constructive fraud (Count VI) is DENIED. Also, for the reasons enumerated in the MEMORANDUM OPINION filed contemporaneously herewith, Defendant Duke University's motion to dismiss Plaintiff's claim for breach of contract (Count VII) is DENIED. In light of these rulings, Plaintiff and Defendant Duke University are directed to proceed with the prosecution and defense of this matter with respect to Plaintiff's claims for patent infringement, conversion, misappropriation of business opportunities, and breach of contract.

This the 1st day of December, 1999.

s/ James A. Beaty
United States District Judge